2013

SaskEnergy

ANNUAL REPORT

VISION

To create a competitive advantage for Saskatchewan through safe, innovative energy solutions.

MISSION

Our team of engaged employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

VALUES

COMMUNITY
We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.

RECOGNITION
We take time to recognize the individual and team contributions of our employees.

SPIRIT
We create a positive and dynamic work environment that enables personal achievement, work life balance and business success.

SAFETY
We never compromise the safety of our employees and the public.

COMMUNICATION
We have open, honest and respectful communication that builds strong relationships.

INTEGRITY
We are honest, respectful and apply high ethical standards.

ACCOUNTABILITY
We are accountable for our decisions, our actions and the results.

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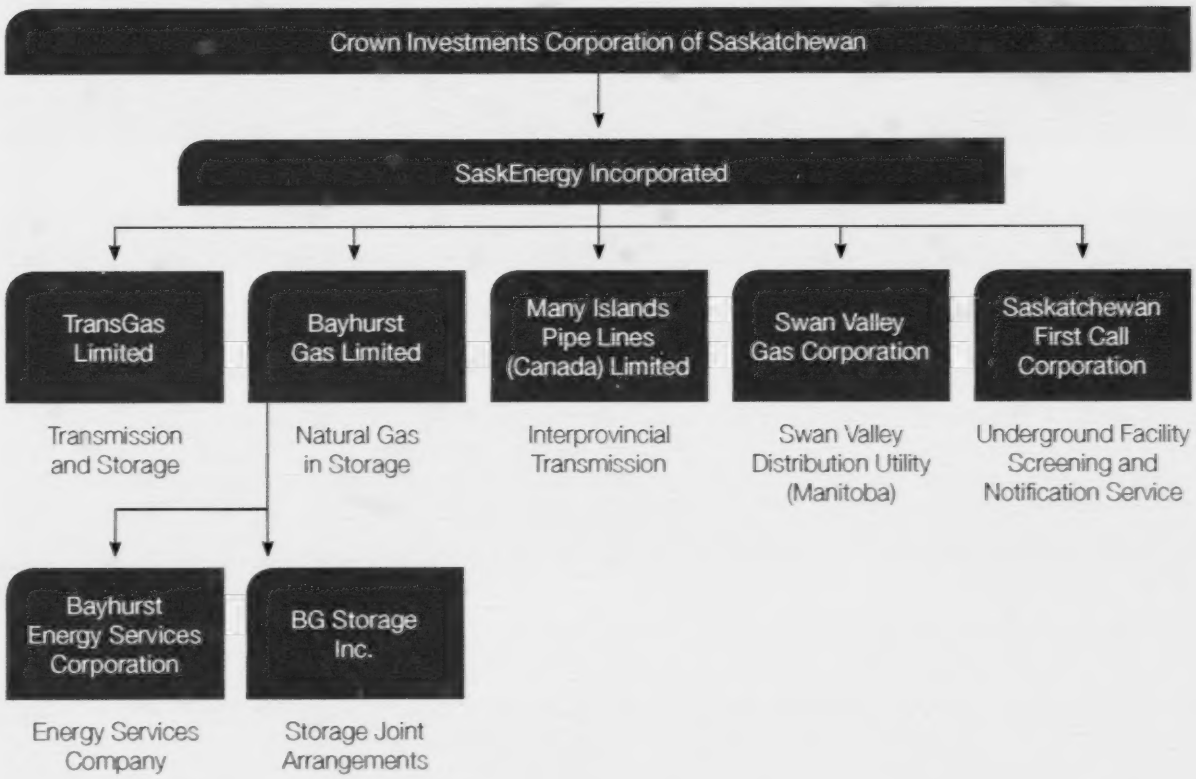
MEETING THE STORAGE AND TRANSMISSION NEEDS OF SASKATCHEWAN'S GROWING INDUSTRIAL SECTOR IS THE NUMBER ONE PRIORITY FOR THE TRANSGAS CUSTOMER SERVICE GROUP. IN 2013, THIS TEAM ENSURED THAT CUSTOMER FACILITY AND TIE-IN PROJECTS WERE COMPLETED ON TIME AND ON BUDGET, AND WORKED WITH TRANSGAS CUSTOMERS TO DEVELOP COST-EFFECTIVE, TIMELY SOLUTIONS.

OUR TEAM

CORPORATE PROFILE



SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel and SGI) and various commercial investments.

SaskEnergy's main business is the natural gas Distribution Utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent ministerial advisory committee, prior to receiving Provincial Cabinet approval.

SaskEnergy's corporate structure includes five wholly owned and two indirect wholly owned subsidiaries, as follows:

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta.

Bayhurst Energy Services Corporation (BESCO), a wholly owned subsidiary of Bayhurst Gas Limited, is an energy services company. BESCO owns a 50 per cent interest in a natural gas processing plant in southeastern Saskatchewan, which is operated through a joint arrangement with ATCO Midstream Limited. BESCO is also the sole owner and operator of a bulk Compressed Natural Gas fuelling facility in Weyburn.

BG Storage Inc. (BGSI), a wholly owned subsidiary of Bayhurst Gas Limited, owns a 50 per cent interest in a natural gas storage business, which is operated through a joint arrangement with Faro Energy Ventures Ltd.

Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns nine natural gas pipeline interconnections into Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas system. MIPL is regulated by the National Energy Board.

Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can request the location of pipeline and underground facilities of its subscribers. *Sask 1st Call's* fee structure is intended to recover all operational costs and allow *Sask 1st Call* to operate on a break-even basis.

Swan Valley Gas Corporation (SVGC) owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC serves customers in the towns of Swan River, Benito and Minitonas. SVGC is regulated by the Manitoba Public Utilities Board. An agreement has been entered into with Centra Gas Manitoba Inc. for the sale of all the assets of SVGC. This transaction is subject to approval of the Manitoba Public Utilities Board, with a decision expected in early 2014.

TransGas Limited (TransGas) owns and operates a high pressure natural gas transmission pipeline business and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas uses a Customer Dialogue process to openly discuss business, operational and rate matters with a representative group of customers.

ACHIEVING GROWTH

WITH A **DISTRIBUTION CUSTOMER BASE OF MORE THAN 373,000 CUSTOMERS ACROSS THE PROVINCE** (A NINE PER CENT INCREASE SINCE 2008), SASKENERGY'S FRONTLINE EMPLOYEES HAVE PLAYED A KEY ROLE IN MEETING THE DEMANDS OF ECONOMIC GROWTH. THANKS TO THEIR SKILL, DEDICATION AND SAFETY FOCUS, SASKENERGY CONTINUES TO PROVIDE SAFE, RELIABLE AND TIMELY SERVICE IN COMMUNITIES LARGE AND SMALL.

LETTER OF TRANSMITTAL

March 11, 2014

Her Honour the Honourable Vaughn Solomon Schofield, S.O.M., S.V.M.

Lieutenant Governor of Saskatchewan

Madam:

I respectfully submit the annual report of SaskEnergy Incorporated for the year ended December 31, 2013, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

[Original signed by T. McMillan]

Honourable Tim McMillan
Minister Responsible for SaskEnergy

MINISTER'S MESSAGE

On behalf of Premier Brad Wall and the Government of Saskatchewan, I present the SaskEnergy 2013 Annual Report.

By nearly any measure, Saskatchewan's economy was among the strongest in the nation in 2013. While the year will perhaps be best-remembered for a new provincial population record of over 1.1 million residents — marking the fastest growth rate in over 90 years — employment, trade and manufacturing results were also impressive.

Prominent within Saskatchewan's diverse asset base is a strong energy sector. Oil production remained at near-record levels in 2013, and, while natural gas production was affected by low commodity prices, demand grew significantly as new homes were built and various industries sought an economical fuel source for their Saskatchewan operations. In response, SaskEnergy once again performed very ably throughout the year, working closely with key customers and stakeholder groups to identify solutions and develop processes to ensure efficient service delivery.

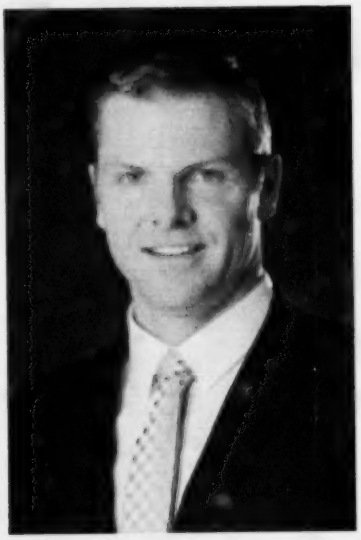
By providing these essential infrastructure services to the Province, SaskEnergy clearly supports established Crown Sector Priorities and the Saskatchewan Growth Plan — an alignment that is prominent throughout the Corporation's annual business plans and related materials. I commend SaskEnergy leadership for their diligence and professionalism throughout the year.

I would like to thank all SaskEnergy employees, management and the Board of Directors for their contributions to the company in 2013.

Sincerely,

[Original signed by T. McMillan]

Honourable Tim McMillan
Minister Responsible for SaskEnergy



CHAIR'S MESSAGE

On behalf of the SaskEnergy Board of Directors, it is my pleasure to join the Minister Responsible for SaskEnergy, the Honourable Tim McMillan, in presenting the SaskEnergy 2013 Annual Report.

In June 2013, I was pleased to accept the opportunity to chair the SaskEnergy Board of Directors and to assist in providing the long-term strategic direction to guide the company's activities within our present dynamic Saskatchewan business environment. Working with my fellow Board members and SaskEnergy leaders in the months since, I am proud to steward a high-achieving organization with clear priorities, well-designed strategies and the right people to deliver them.

SaskEnergy built on its foundation of safe, reliable service at competitive rates to register another strong year in 2013, as measured by internal scorecard measures and successful alignment with the Government of Saskatchewan's Crown Sector Priorities. The Corporation's annual financial results were favourable and are but one measure of success. Effective rate management, financial gains from productivity and efficiency initiatives, and strong customer satisfaction levels further indicate that the Corporation is well-positioned to continue to meet its future business goals.

I would like to recognize the significant contributions of former Chair Rob Pletch, who provided excellent leadership throughout one of the busiest five-year periods in SaskEnergy's history, and Nadine Krenosky and James Rybchuk, long-time members who left the Board in 2013. At the same time, I welcome new Board members Norm Beug and Nola Joorisity.

On behalf of the Board, I offer my thanks to the SaskEnergy Executive team, management and employees for their contributions this past year.

Sincerely,

[Original signed by S. Barber]

Susan Barber
Chair, SaskEnergy Board of Directors

PRESIDENT'S MESSAGE

Looking back on another successful year for SaskEnergy, familiar factors served as primary business drivers, including high levels of customer activity, a continuing low natural gas commodity price environment and increased public attention toward buried infrastructure safety practices. The effectiveness of our collective response to these factors can be found in the measures throughout this document. That they are largely positive is once again thanks to the leadership of our team of employees and contractors across Saskatchewan.

SAFETY & INDUSTRY BEST PRACTICE ALIGNMENT

In 2013, safety remained a core focus, with efforts to ensure SaskEnergy alignment with accepted industry best practices including expansion of resources toward First Responder awareness and emergency response, the rollout of a stronger corporate Drug and Alcohol Policy program, and enhancements to our Competency Assessment Plan (CAP) program, which confirms the skills of both field employees and external contractors.

Meanwhile, SaskEnergy's budget for system integrity activities rose to $94 million in 2013, up $15 million from 2012 -- a sign of the Corporation's continuing commitment to safety across our 83,000 kilometres of pipeline. These evolving efforts continue to show strong results, as risk-based modeling and historical data allow us to proactively identify and upgrade higher-risk assets. To maintain the safe and reliable operation of the distribution and transmission networks, the system integrity budget will increase to $101 million in 2014, with public messaging and stakeholder engagement designed to reduce third-party line contacts with buried infrastructure also seeing elevated profile.

COMMITMENT TO SERVICE EXCELLENCE

With nearly 7,700 new distribution connections in 2013, SaskEnergy now serves a base of more than 373,000 customers (a nine per cent increase since 2008). Meanwhile, low commodity prices sustained demand for natural gas as a cost-effective fuel source for Saskatchewan industrial users and contributed to a 12 per cent annual increase in the amount of natural gas transported within the Province.

Continuing to meet the demands of Saskatchewan's growing economy is a clear priority for SaskEnergy, in alignment with Crown Sector Priorities and the Saskatchewan Growth Plan. To this end, $224 million in 2013 capital investment marked the beginning of a planned $1 billion investment over a five-year period, directly supporting projects related to customer growth, safety and integrity enhancements, facility capacity additions to manage increased Alberta supply, and business support functions.

FINANCIAL RETURNS & COMPETITIVE RATES

A growing Saskatchewan customer base and the colder than average weather were key factors in SaskEnergy's strong 2013 financial results, including $79 million in income before unrealized market value adjustments. These factors helped offset reduced revenue from commodity marketing activities ($12 million margin in 2013, down from $36 million in 2012), as a result of limited opportunities within the flat commodity price environment.

Given the volatility of factors affecting annual revenue, SaskEnergy has developed a focus on effectively managing controllable costs. In 2013, corporate efficiency measures generated $5.5 million in incremental savings, part of $27 million in savings since 2009. Bolstered by these efforts, SaskEnergy's distribution rates remained the lowest in Canada, with our commodity rates falling to their lowest levels since 2000. Meanwhile, effective management of supply options — including the construction of key interconnect pipelines and ongoing communication with third-party transport companies — were key to TransGas maintaining competitive rates for industrial customers in 2013.

Together, increased capital requirements and the need to import additional supply into the Province received priority attention. Successful execution of strategies designed to minimize these impacts will be a key factor in our ability to continue to meet industry standards for financial returns while offering competitive rates to customers.

TECHNOLOGY & PROCESS SERVICE OPTIMIZATION

Two of the largest technology projects in SaskEnergy's history reached milestones in 2013. Foremost among them was the successful launch of a new corporate Customer Information System (CIS), which provides the platform for better management of crucial customer account information and the production of more than 3.5 million paper bills annually. The year also marked the beginning of the province-wide effort to add Advanced Metering Infrastructure (AMI) modules to nearly 374,000 natural gas meters in the Province. Upon its completion in 2015, this collaborative project will allow both SaskEnergy and SaskPower to read customer meters remotely, reducing operating costs while improving functionality and customer convenience.

The CIS and AMI projects reiterate the importance of ongoing stakeholder engagement in today's business environment, including customers, business vendors, other Saskatchewan Crown corporations and a wide range of other external groups. This remained a strength for SaskEnergy in 2013, as we leveraged our strong relationships and solid processes to create value for our customers, partners and Shareholder.

Along with the other members of the SaskEnergy Executive, I extend my thanks to our team across the Province for their ongoing contributions to our past and future success.

Sincerely,

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer, SaskEnergy

FINANCIAL AND OPERATING HIGHLIGHTS

CONSOLIDATED FINANCIAL INFORMATION[1]	2013	2012	2011	2010	2009
($ millions)					
Total revenue	908	798	890	953	1,210
Total expenses	829	690	864	903	1,117
Consolidated net income	79	108	26	50	93
Market value adjustments	–	34	(58)	(18)	29
Income before unrealized market value adjustments	79	74	84	68	64
Dividends	30	27	39	49	51
Total assets	2,207	2,037	1,924	1,858	1,587
Cash provided by operating activities	244	172	195	185	75
Capital expenditures	224	187	172	144	130
Total net debt	1,064	1,009	935	894	847
Debt/Equity ratio	59/41	59/41	60/40	59/41	64/36
Consolidated return on equity	11.0%	11.0%	13.6%	10.8%	13.5%
OPERATING STATISTICS					
Distribution volumes *(petajoules)*					
Residential/Farm	37	34	34	34	37
Commercial	33	29	29	30	31
Industrial	108	90	82	82	62
TOTAL	178	153	145	146	130
Transmission volumes *(petajoules)*					
Domestic	265	237	226	215	205
Export	3	4	5	24	62
TOTAL	268	241	231	239	267
Number of customers					
Distribution	373,436	365,749	358,363	352,560	347,327
Transmission	153	148	137	135	132

[1] Results prior to 2010 were reported in accordance with Canadian generally accepted accounting principles.

FIVE-YEAR OPERATING SUMMARY – DISTRIBUTION	2013	2012	2011	2010	2009
Sales in million cubic metres[1]	4,639	3,985	3,803	3,794	3,415
Residential annual average usage *(cubic meters)*	3,020	2,696[2]	2,851	2,856	3,414
Degree days[3]	6,193	5,415	5,564	5,531	6,227
Percentage warmer (colder) than normal	(12.5%)	2.4%	(0.5%)	0.1%	(12.3%)
PIPELINE *(kilometres)*					
Distribution Utility					
SaskEnergy Incorporated	68,612	68,092	67,692	67,342	67,046

[1] Retail, industrial and natural gas marketing.
[2] 2012 figure updated to reflect actual use per customer, rather than weather normalized use.
[3] A unit measuring the extent to which the temperature falls below 18° Celsius. Normal weather in 2013 would have been 5,504 degree days.

FIVE-YEAR OPERATING SUMMARY – TRANSMISSION	2013	2012	2011	2010	2009
Peak day natural gas flows *(petajoules)*	1.26	1.20	1.09	1.07	1.19
Date of peak day flow	Dec. 6	Jan. 18	Jan. 31	Jan. 7	Mar. 11
Storage cavern sites	6	6	7	8	8
Storage caverns	26	27	27	27	26
Storage field sites[1]	4	4	3	3	3
Producing field sites[1]	1	1	2	1	1
PIPELINE *(kilometres)*					
TransGas Limited					
Transmission	14,291	14,230	14,048	13,889	13,803
Gathering	203	201	201	201	197
Many Islands Pipe Lines (Canada) Limited	435	435	435	435	435
Bayhurst Gas Limited	113	113	113	113	113
TOTAL	15,042	14,979	14,797	14,638	14,548
COMPRESSOR STATIONS					
TransGas Limited	24	24	24	22	22
Bayhurst Gas Limited	3	3	3	3	3
TOTAL	27	27	27	25	25
COMPRESSION HORSEPOWER					
TransGas Limited	87,720	86,270	85,120	82,250	81,100
Bayhurst Gas Limited	6,300	6,300	6,300	6,300	6,300
TOTAL	94,020	92,570	91,420	88,550	87,400

[1] Includes Bayhurst Gas Limited.

SERVICE EXCELLENCE

THE **CUSTOMER INFORMATION SYSTEM** PROJECT, WHICH WAS COMPLETED AND IMPLEMENTED IN 2013, WAS ONE OF THE MOST IMPORTANT, AND MOST COMPLEX, PROJECTS IN OUR COMPANY'S HISTORY.

CORPORATE HIGHLIGHTS

SaskEnergy's Strategic Objectives align with the Government of Saskatchewan's Crown Sector Priorities. The Corporation's operating environment, including the state of the Province's economy, changing demographics, and public expectations of pipeline companies has influenced the strategic direction of the Corporation. As discussed below, public safety, landowner and stakeholder relations, Provincial economic development, and the continuing low natural gas price environment have been key to the Corporation's efforts in 2013.

SERVICE EXCELLENCE

System Integrity Initiatives

Essential to ensuring safe and reliable service, SaskEnergy/TransGas continues to advance system integrity programming by leveraging industry best practices with a risk-based asset management approach. In 2013, SaskEnergy replaced approximately 10 kilometres of early generation plastic distribution pipe and associated services in the Grasswood area south of Saskatoon. In addition, SaskEnergy's in-line inspection program, which assesses pipelines to ensure they are safe to operate, inspected 13 pipelines totaling 750 kilometres. As part of continuing efforts to bring gas services in line with current company standards, SaskEnergy upgraded 2,851 gas service connections in Regina, Rouleau, Pense and Rosetown at a cost of $16 million, and installed a number of new isolation valves in Prince Albert, thus reducing the time required to shut down related sections of pipeline in the case of an emergency.

Mission: Zero Partnership Agreement

As the first Crown corporation to enter into a Mission: Zero Partnership agreement, SaskEnergy demonstrated its continued commitment in 2013, elevating its role in public safety by adding the Mission: Zero logo to the tailgates of all corporate vehicles for a 12-month period. As well, SaskEnergy's annual Safety Stand Down Week, which brings together all employees to focus on safety actions, centred on the Mission: Zero belief that all injuries are predictable and preventable, and the only acceptable goal to strive for provincially is zero deaths, zero injuries, and zero suffering.

Customer Information System (CIS)

The CIS project, implemented in 2013, was one of the most important and complex projects in SaskEnergy's history. Replacing a system that was introduced more than 25 years ago, the new Customer Care and Billing System enables SaskEnergy to bill more than 15,000 customers each working day and manage more than 373,000 customer accounts. The new customer care system allows SaskEnergy to more efficiently serve its growing customer base with more automated processes, tools to manage business requirements, customized functionality and long-term vendor support. The CIS project demonstrated the collaboration and strength of a provincial workforce and was successful thanks to the leadership, perseverance and support among the Corporation's employees, external contractors and key stakeholder groups.

Customer Satisfaction

In 2013, a total of 800 respondents took part in the annual SaskEnergy Customer Satisfaction survey. At 88 per cent, overall satisfaction with SaskEnergy remains strong and consistent with previous years. Other highlights from the survey include 93 per cent of respondents indicating that

SaskEnergy provides "reliable service to their homes," while 90 per cent of respondents believe that SaskEnergy "makes safety a number one priority." In addition, TransGas achieved an overall satisfaction score of 94 per cent in its annual Customer Satisfaction Survey, marking another year of continued high satisfaction.

Moose Jaw Bypass Project

In 2013, SaskEnergy installed 12.5 kilometres of new high pressure pipeline around the north side of Moose Jaw, thereby re-routing the gas flowing through an existing transmission line that ran through Moose Jaw. Through consultation with the City of Moose Jaw, the pipeline was routed near existing service corridors, outside the City's projected plan for growth. This project increased the integrity of the pipeline, will better accommodate the city's future growth and, because of the planning and cooperation efforts, serves as an example for planned re-routes in other Saskatchewan communities.

Advanced Metering Infrastructure (AMI) Project

In its commitment to customer service and efficiency, SaskEnergy has partnered with SaskPower to install AMI natural gas and electrical meters across the Province. The project provides considerable operational and customer service benefits, such as billing based on the amount of actual consumption, rather than estimated consumption, and automatic and secure meter readings. In 2013, this joint project began province-wide deployment, beginning in Regina. Installations in nine other regions will take place throughout 2014 and 2015.

Meter Exchanges

In 2013, SaskEnergy teams removed and replaced approximately 25,000 meters throughout the Province — 5,200 more than in 2012. SaskEnergy has accelerated the rate of meter replacement in preparation for stricter Measurement Canada compliance requirements being implemented in 2014, and to ensure compatibility with its new AMI. SaskEnergy accomplished the larger number of meter replacements through effective planning, which maximized field technician productivity, and greater coordination with customers to ensure that most meter exchanges were completed by appointment.

ACHIEVING GROWTH

SaskEnergy/CanGas Compressed Natural Gas Service

In June 2013, SaskEnergy and CanGas Solutions Inc. (CanGas) unveiled the first commercial high-capacity compressed natural gas (CNG) truck-transport supply station in Saskatchewan. The station was developed by SaskEnergy as part of a three-year natural gas delivery agreement with CanGas. The card-lock station, which is located at SaskEnergy's Weyburn Town Border Station, is the first commercial CNG loading station in Saskatchewan, designed to quickly and efficiently load trailer-sized CNG containers for truck-haul delivery. The three-year agreement is expected to generate more than $2 million in revenue for SaskEnergy, and allows CanGas to deliver natural gas to oil and drilling companies operating in the Bakken region in southeastern Saskatchewan. These companies now have the option to use natural gas — a cleaner burning and more cost-efficient fuel than diesel — as their primary operating fuel.

Distribution and Transmission Growth

As a result of provincial economic growth, and housing and commercial activity, SaskEnergy added 7,687 net new customers to its distribution system in 2013, bringing total customers to more than 373,000. This represents the largest customer increase this decade, surpassing 2012's total of 7,386 new customers. SaskEnergy's active customer base has increased by nine per cent over the last five years. With the continued growth of customers, SaskEnergy has added more than 500 kilometres of distribution pipelines, as well as 6,500 new gas service lines. Transmission volume in 2013 increased by 27 petajoules (PJ), or 11.4 per cent, from 2012. SaskEnergy has made a significant investment in its distribution and transmission system to connect customers in a wide range of key Saskatchewan industries, including power production, potash mining and enhanced oil recovery.

Managing Increasing Supply Requirements

With Saskatchewan now a net importer of natural gas, TransGas has sought ways to leverage its existing pipeline infrastructure, and that of other pipelines, to manage the increasing natural gas consumption in the province in the face of declining provincial natural gas production. In 2013, TransGas completed the installation of a second interconnect

with the Foothills Pipeline in Saskatchewan, and contracted additional firm transportation, which together increased total Alberta interconnect receipt capacity to 350,000 gigajoules (GJ) per day, an increase of 25 per cent from 2012. TransGas also initiated the construction of a pipeline between Bayhurst, a storage field near Leader, to Rosetown, which will enable TransGas to move more gas into the northern portion of its system, and as a result, allow more gas to be taken from Foothills' pipeline. Upon completion of this pipeline in 2014, TransGas will have the ability to take approximately 450,000 GJ per day from Alberta and have added operational flexibility, which will be critical for future TransGas system operation.

OUR TEAM

Building Leadership Strengths and Engaging Our Team

An aligned and engaged team produces focused results, and in 2013, SaskEnergy continued to further develop and engage its team. The SaskEnergy/TransGas Employee Survey was conducted in May, with 75 per cent of employees providing feedback. Compared to the previous survey in 2011, improvements were noted in 10 of 11 factors, with the largest improvement in employees' feelings around their "Value of Work and Contribution." SaskEnergy's Leadership Network brings Senior Leaders and Supervisors together regularly to develop leadership and engagement skills. Building on the positive changes identified in the 2013 employee survey, SaskEnergy also introduced its 'Leadership Expectations for Supervisors' and 360 feedback program to help supervisors continue to improve as leaders. Learning opportunities for employees included SaskEnergy's Leadership Development Program, which included participants from SaskWater, serving as an example of positive Crown collaboration.

SaskEnergy and CEP (Unifor Local 649, as of August 31) Collective Agreement

In 2013, SaskEnergy and the Communication, Energy and Paperworkers Union (CEP), Local 649 – which merged with the Canadian Auto Workers union to become Unifor – successfully negotiated a new Collective Bargaining Agreement. The agreement extends for four years and is part of an important framework upon which SaskEnergy's positive labour relations can be maintained into the future. It was a result of the dedication and diligence from members of both the management and union bargaining committees.

Competency Assessment Plan (CAP)

The CAP highlights SaskEnergy's commitment to safe pipeline operations and alignment with the direction of the Canadian Gas Association. Through formal evaluations of worker skill sets and knowledge, CAP addresses the growing need to verify the competency of individuals working on pipeline facilities. Using a three-year rotating task assessment schedule, CAP evaluates approximately 500 field workers. In its third year, the CAP program was again successful, with nearly 2,500 assessments completed as planned and efficiency gains realized through the use of online technology in the assessment process. The results confirmed that SaskEnergy and TransGas employees have the requisite training and preparation to safely work on natural gas facilities.

CREATING VALUE

Productivity and Efficiency Initiatives

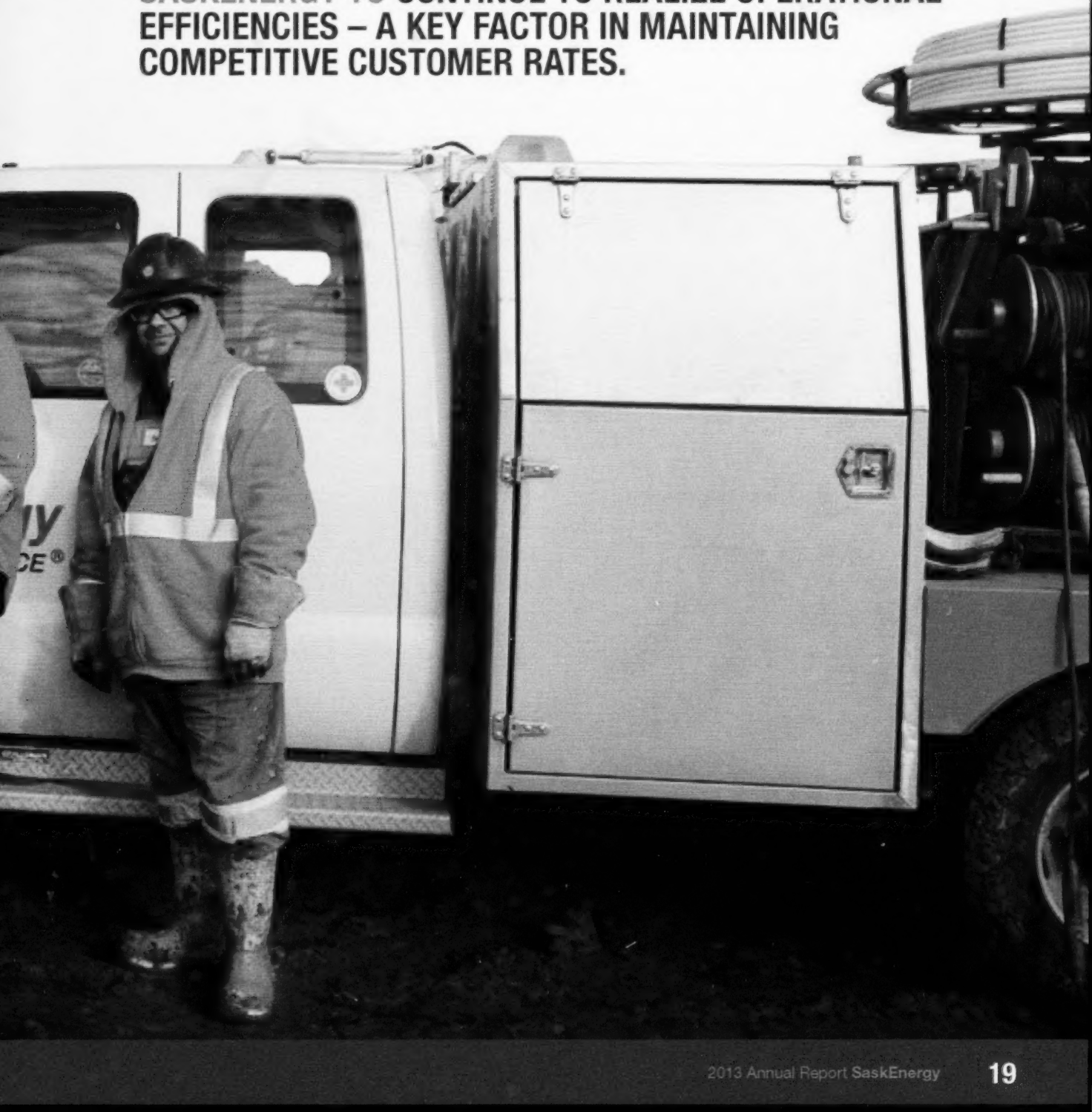
In 2013, SaskEnergy realized $5.5 million in efficiency savings through initiatives that reduced third-party transport costs, improved external resource procurement strategies, outsourced joint line locates, and expanded deployment of mobile compression. The Corporation is currently looking at changes to external resource procurement strategies, technology driven process efficiencies, and alternative third-party transport options that are expected to produce additional efficiencies.

101st Grey Cup Champion of Volunteers

One example of SaskEnergy's effort to support communities across Saskatchewan is the Champion of Volunteers program. Through this program in 2013, more than 60 employees assisted in the volunteer orientation sessions that prepared more than 2,400 volunteers for the 101st Grey Cup Festival. As a sponsor for the 101st Grey Cup Festival, SaskEnergy was involved with many of the activities that took place leading up to and during the festival week.

CREATING VALUE

EMPLOYEES FROM SASKENERGY'S CONSTRUCTION AREA TOOK A LEADERSHIP ROLE IN 2013 THROUGH INITIATIVES SUCH AS JOINT TRENCHING PROJECTS WITH OTHER SASKATCHEWAN CROWN CORPORATIONS AND ONGOING INTEGRATION OF THIRD-PARTY RESOURCES TO AUGMENT INTERNAL EXPERTISE. THEIR EFFORTS ENABLE SASKENERGY TO **CONTINUE TO REALIZE OPERATIONAL EFFICIENCIES – A KEY FACTOR IN MAINTAINING COMPETITIVE CUSTOMER RATES.**



MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and performance for the year ended December 31, 2013. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. The MD&A is presented as at March 11, 2014, and should be read in conjunction with the Corporation's audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks, which are described in the Risk Management and Disclosure section of the MD&A. All forward-looking statements reflect the Corporation's best estimates and assumptions based on information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by or implied by such statements.

The Corporation's financial results are subject to fluctuations, especially given the volatility of natural gas prices. In order to compare financial performance from period to period, the Corporation uses the following measures: income before unrealized market value adjustments, realized margin on commodity sales and realized margin on gas marketing sales. Each measure removes the impact of fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to the lower of cost and net realizable value. These unrealized market value adjustments vary considerably with the market prices of natural gas, drive significant changes in the Corporation's consolidated net income and may obscure other business factors that are also important to understanding the Corporation's financial results. The measures referred to above are non-IFRS measures, in that there is no standardized definition, and may not be comparable to similar measures presented by other entities.

STRATEGIC SCORECARD MEASURES

SaskEnergy's four strategic mandates — Service Excellence, Achieving Growth, Our Team and Creating Value — were set out in the 2013 Business Plan and support the vision, mission and values of the Corporation. They play a vital role in SaskEnergy's business planning and reporting, and help employees determine how their everyday work and effort contribute to the Strategic Plan and overall direction of the Corporation.

Each year, SaskEnergy comprehensively sets, measures and reports on specific scorecard targets within its strategic mandates. The following discussion outlines the Corporation's 2013 performance relative to its strategic scorecard measures, which are further defined in the Glossary of Key Success Measures.

Service Excellence

SaskEnergy is committed to providing high standards of safe and reliable service with effective customer solutions, as evidenced by its Service Excellence mandate. Within Service Excellence, there are three categories of measures — Efficient Operations, Safety/Vigilance and Customer Satisfaction, with our success measured by industry benchmarking and customer surveys.

In alignment with the Crown Sector Priority of finding innovative ways to improve efficiency while containing costs, SaskEnergy and TransGas are committed to the cost-effective delivery of natural gas services to all customers in Saskatchewan. To this end, the Corporation realized $5.5 million in efficiency savings and process improvements in 2013 ($27 million since 2009). These efforts are reflected within the annual scorecard measures, most prominently in SaskEnergy's ability to successfully offer competitive residential delivery rates to its customers each year.

Efficiency cannot come at the expense of a safe and reliable system, as acknowledged by the Corporation's budget for system integrity programming, which nearly doubled between 2011 and 2014. Coupled with this increased budget, greater use of risk-based assessment tools have led to the creation of a wider variety of specific programs working proactively to effectively mitigate issues on both the distribution and transmission network. While the results of 2013 efforts were favourable, continued commitment to system integrity and asset management efforts will always be a key focus area for SaskEnergy/TransGas.

Perhaps the best indicator of SaskEnergy's success in delivering safe, reliable, and affordable services is formal feedback from its customers. Recognizing that customers are vital to a successful business, both SaskEnergy and TransGas conduct annual surveys in an effort to gather feedback on customer expectations and overall satisfaction.

SERVICE EXCELLENCE

STRATEGIC MEASURE	2012 ACTUAL	2013 ACTUAL	2013 TARGET	COMMENTS	2014 TARGET
EFFICIENT OPERATIONS					
• Distribution					
◦ Operation, Maintenance and Administration Costs per Customer	$285	$307	$295	Increased costs related to customer growth and system integrity projects led to year-end results that were higher than target.	$304
◦ Competitive Residential Delivery Rates	Competitive with Industry	Competitive with Industry	Competitive with Industry	A typical residential customer in Saskatchewan paid $431 for delivery service in 2013, which was the lowest amount across Canada.	Competitive with Industry
• TransGas					
◦ Operation, Maintenance and Administration Costs per Book Value of Assets Managed	7.7%	7.8%	7.8%	This metric is a proxy for the relative efficiency of the Transmission Utility operations. Increased costs were managed during the year through operational and process efficiencies.	7.1%
SAFETY/VIGILANCE					
• SaskEnergy Leaks per 1,000 kilometres of Mains	New for 2013	5.99	7.70	System integrity programs proactively identify and recommend replacement of service connections flagged as "high risk" (2,851 service upgrades in 2013).	6.90
• TransGas Pipeline Failures per 1,000 kilometres of Pipe	New for 2013	0.07	0.15	Reportable pipeline failures for 2013 were well below the Canadian Energy Pipeline Association (CEPA) industry failure rate. This new measure provides a clear comparison to available industry metrics.	0.13
• Safety and Integrity	4.7%	6.2%	5.8%	Integrity programming capital budget was increased by $4 million mid-year in order to address a pipeline capacity issue at an opportune time for the community of Moose Jaw.	6.0%
CUSTOMER SATISFACTION					
• SaskEnergy	92%	88%	89%	The 2013 SaskEnergy survey results show high levels of customer satisfaction in virtually all areas, including safety and reliability.	89%
• TransGas	94%	94%	90%	Customer survey results in 2013 reflect continued strong satisfaction with TransGas business services, including a slight increase in satisfaction rates for facility requests.	90%

Achieving Growth

Achieving Growth includes all areas of our business — continuing to build on the foundation of our core business of serving growing residential, commercial, and industrial customers' needs as well as finding new opportunities through partnerships and technology developments. The measures within Achieving Growth represent the Corporation's commitment to facilitating the growth of Saskatchewan's economy.

The Business Growth Investment measure recognizes the fundamental importance of core revenue growth in the Corporation's two utilities as a key indicator of the success of the business. In this regard, recent provincial growth has directly contributed to an increased distribution customer base and increased demand for natural gas from industrial facilities.

The Diversified Non-Core Business measures reflect the value of developing new revenue streams within the commodity and unregulated business environment. Successful efforts in this area will create a wider revenue base and strongly align SaskEnergy with the Crown Sector Priority of forming partnerships and joint ventures with the private sector to facilitate growth in the Saskatchewan economy.

ACHIEVING GROWTH[1]

STRATEGIC MEASURE	2012 ACTUAL	2013 ACTUAL	2013 TARGET	COMMENTS	2014 TARGET
BUSINESS GROWTH INVESTMENT					
• Core Growth – SaskEnergy and TransGas Revenue Growth	6.6%	4.3%	6.3%	Lower than anticipated growth in contracted receipts onto the system, as well as deliveries within Saskatchewan, reduced TransGas revenues during the year. Distribution Utility revenues were favorably impacted by colder than normal weather during the year as well as higher customer numbers.	2.8%
DIVERSIFIED NON-CORE BUSINESS					
• Net Revenue (millions)	$33.5	$28.0	$31.8	Kisbey and Coleville gas processing plants experienced lower prices for their natural gas liquids during 2013. As well, flat natural gas prices during the year reduced opportunities to undertake gas marketing transactions at a margin.	$22.9
• Total Capital Investment (millions)	$7.8	$6.9	$89.9	Unforeseen delays occurred in several joint arrangements, most notably an ethane extraction plant in southeastern Saskatchewan and a pressure energy recovery project in Saskatoon (totaling $83 million). Both projects have moved into the 2014 capital plan.	$62.0
Percentage of Third-Party Capital Investment	36%	26%	82%		83%
• Return on Equity	30.9%	20.1%	23.8%	Low and stable natural gas prices throughout the year did not yield the opportunities to capture value through gas marketing activities to the extent anticipated.	12.5%

[1] This mandate contains all new measures for 2013, developed as part of the new SaskEnergy Strategic Plan. The 2012 results were provided for comparative purposes only.

Our Team

Our Team is a broad and diverse group that includes our employees, contractors, and business partners achieving synergies in managing the pile of work. With an increasingly competitive labour market and high levels of retirements, attention to a performance culture and our reputation for leadership development are fundamental to success. The Our Team mandate reflects SaskEnergy's commitment to providing "the right resource at the right place at the right time". Within Our Team, there are three categories of measures – Physical Safety, Employee Engagement and Workforce Diversity.

Employee and public safety are at the core of every activity at SaskEnergy, with the Corporation's top priority being to send each and every employee home safely at the end of the day. Working with industry peers and other stakeholder groups to share knowledge, SaskEnergy continually strives to develop a safety-first work environment, where processes and procedures have been documented as meeting or exceeding the continually evolving best-practice standards. Importantly, the Corporation recognizes that these processes are merely the foundation for safety and that the individual decisions made by employees and contractors each day will ultimately determine success in this vital area.

SaskEnergy also recognizes the importance of engaged employees to a successful organization. Through initiatives like the Leadership Network and Leadership Development Program, as well as all-employee meetings and ongoing training and development opportunities, the Corporation has made positive strides in developing leadership skills at all levels and, by extension, overall employee engagement has improved. Given the competitive nature of the Saskatchewan job market, this will remain a key focus in the coming years.

Similarly, the Crown Sector Priorities identify workforce diversity as a key business success measure. SaskEnergy strives to be reflective of Saskatchewan's population by providing equal opportunity to qualified people, recognizing First Nations, Métis and youth represent a large majority of Saskatchewan's future labour force.

OUR TEAM

STRATEGIC MEASURE	2012 ACTUAL	2013 ACTUAL	2013 TARGET	COMMENTS	2014 TARGET
PHYSICAL SAFETY					
• Recordable Injury Frequency Rate	Third Quartile	Third Quartile	Second Quartile	The Total Recordable Injury Frequency rate was 2.46. Although this was the Corporation's best recorded rate in 16 years, it was still below target.	Second Quartile
EMPLOYEE ENGAGEMENT					
• Employee Survey	-5%	-3%	At or above Hay Survey Norm	Compared to the last major employee survey in 2011, improvements were noted in 10 of the 11 factors assessed as part of the survey. The Hay Group benchmarks survey results to the Hay Norm, which is based on more than 500 North American organizations.	At or above Hay Survey Norm
WORKFORCE DIVERSITY					
• Youth (under 30 years of age)	18.7%	19.0%	17.0%	SaskEnergy's successful transitioning of its workforce is reflected in the consistently strong results achieved related to the percentage of youth employed by the Corporation.	17.0%
• First Nations/Métis	14.0%	14.6%	15.5%	The 2013 results exceed the Saskatchewan Human Rights Commission target of 13.2 per cent.	15.5%

Creating Value

Creating Value demands that SaskEnergy performs with an entrepreneurial spirit, consistently demonstrating that we are nimble, adaptable, and flexible, while always focused on efficiency and results. SaskEnergy's Creating Value mandate measures are in place to ensure that the Corporation is adding value for its Shareholder, customers and employees through financially strong and sustainable operations, sound corporate governance and relationships within the communities it serves. Within Creating Value, there are three categories of measures – Financial Strength, Environmental and Community Relationship.

SaskEnergy strives to maintain an appropriate capital structure while providing reasonable financial returns to the Shareholder and competitive rates to customers. The Corporation works hard to balance the interests of both the Shareholder and its customers – focusing on annual profitability and long-term sustainability. SaskEnergy reported strong financial results in 2013. Within the continuing growth environment, SaskEnergy maintained a responsible capital structure with the appropriate level of debt through regular situational analysis, stakeholder engagement and adaptation to changing market conditions.

SaskEnergy is also focused on environmental sustainability throughout its operations, and has made significant progress in the controllable aspects of its corporate greenhouse gas (GHG) emissions. While increased natural gas usage is beneficial to achieving emission targets in other sectors and in the Province as a whole, this creates challenges for SaskEnergy in terms of achieving its GHG emission reduction targets. The significant transport volume growth related to the strong provincial economic activity and the need to import natural gas has moved SaskEnergy away from its "Go Green" target. It is important to highlight that if market conditions had remained at 2011 levels, the Corporation would have achieved 83 per cent of its required emissions reductions by the end of 2013.

Recognizing the Corporation's opportunity to play a key role in a province-wide strategy related to GHG reductions, SaskEnergy has developed a new intensity-based performance measure for 2014. The new measure will track tonnes of carbon dioxide per million running horsepower hours, to reflect the efforts SaskEnergy has undertaken, and will continue to undertake, to reduce GHG emissions by operating more efficiently.

Acting as a responsible and contributing member of the communities it serves is an essential part of SaskEnergy's business strategy. Working closely with customers and Saskatchewan communities helps ensure successful business operations and is consistently noted in SaskEnergy Customer Satisfaction surveys as a key strength for the Corporation. SaskEnergy continues to work with CIC to align its Community Relationship scorecard measures with industry best practices.

Another important element of SaskEnergy's contribution to Saskatchewan involves supporting the strong and vibrant Aboriginal labour and business markets. This emerging market serves as an opportunity to create new, sustainable business and employment opportunities for Aboriginal people today, and into the future.

CREATING VALUE

STRATEGIC MEASURE	2012 ACTUAL	2013 ACTUAL	2013 TARGET	COMMENTS	2014 TARGET
FINANCIAL STRENGTH					
• Debt/Equity Ratio	59/41	59/41	61/39	Capital expenditures were lower than anticipated in 2013, primarily related to a transmission expansion project that moved into 2014. Equity levels were strong given higher net income.	61/39
• Consolidated Return on Equity	11.0%	11.0%	10.6%	The return on equity was favourably impacted by higher net income in 2013.	8.0%
• Income Before Unrealized Market Value Adjustments (millions)	$74	$79	$72	Cold weather led to higher natural gas consumption, positively impacting delivery revenue and realized margin on commodity sales. Lower than planned capital expenditures, combined with changes in depreciation rates that saw a reduction in depreciation and amortization expense favourably impacted this metric in 2013.	$62
ENVIRONMENTAL					
• Internal Energy Efficiencies (assuming $4/gigajoule)				The result in 2013 reflects the shortfall in planned efficiencies due to a major upgrade that had to be deferred into 2014. Efficiency savings achieved through capital projects do not include the 142 TJs of compressor fuel that were saved in 2013 as a result of more efficient compression. The TJ portion of this measure has been discontinued for the 2014 Business Plan.	
– in millions	$0.12	$0.05	$0.15		$0.15
– in terajoules (TJ) per year	30	12	37		N/A
• Percentage of "Go Green" Regulatory Target Achieved	64%	43%	79%	Strong provincial economic activity and declining Saskatchewan natural gas production resulted in significant transport volume growth, which negatively impacted the Corporation's result for this metric in 2013. This measure has been replaced with an intensity-based measure for 2014.	N/A
COMMUNITY RELATIONSHIP					
• Communities Impacted	337	337	270	The favourable result for this metric in 2013 was primarily due to an increase in sponsorships to organizations that reach multiple Saskatchewan communities. A new measure of Community Sponsorships as a Percentage of Net Income has been adopted for 2014, aligning SaskEnergy with best practice guidelines.	N/A
• Total Contracts – Percentage of Aboriginal Labour Content	18%	21%	12%	The 2013 result was favourably impacted by several large contracts awarded within the construction and communications areas to companies with significant Aboriginal employee representation.	12%

2014 Outlook

As Saskatchewan continues to see significant economic and population growth, SaskEnergy plays a vital role in providing key infrastructure for new homes, subdivisions, businesses and industrial facilities. At a time when pipeline and energy companies across North America are facing high standards of safety, customer service and environmental stewardship, SaskEnergy will continue to develop processes and procedures that meet or exceed evolving industry standards.

New distribution customers are being added at a rate that is significantly higher than the 10-year average, with another 6,200 customers expected in 2014. Meanwhile, industrial sector strength in the Province has contributed to increased demand for natural gas transmission service. Potash mines, fertilizer plants and enhanced oil recovery are expected to be major areas of industrial load growth for TransGas and will require ongoing risk management and contingency planning to ensure delivery needs are met.

To meet customer expectations, SaskEnergy has developed effective processes to manage growth across its core lines of business. In 2014, the Corporation will realize further improvements and efficiencies within its customer connection processes, as well as joint service initiatives with other Saskatchewan Crown corporations. As part of its focus on business development, and in alignment with the Government of Saskatchewan's Crown Sector Priorities, SaskEnergy will also continue to work with private sector partners to pursue new energy-related growth opportunities and accelerate capital investments in Saskatchewan.

Within today's competitive labour market, a consequence of Saskatchewan's economic growth, SaskEnergy will continue to develop its recruitment, development and employee engagement strategies for 2014. At the same time, the Corporation will continue to strike a balance between internal and external resources to effectively meet customer needs and complete priority work.

SaskEnergy is committed to long-term capital investment strategies, commodity approaches and customer rate management that will generate strong financial returns to its Shareholder. Key to residential and industrial growth, the Corporation will maintain ongoing stakeholder dialogue to enhance corporate directions and service delivery. Throughout these efforts, SaskEnergy will continue to achieve high standards of corporate governance, implementing procedures that have a clear, logical and ethical framework for its business operations.

In addition to the ongoing support of Saskatchewan's towns and cities through community investment, SaskEnergy is committed to environmental mitigation and remediation. The Corporaton will also continue to support the Province in reaching its GHG emission targets. In 2014, these efforts will continue, with projects to provide natural gas to more end users as a clean energy source, to displace traditional fuels in industrial applications, and to further reduce the controllable aspects of the Corporation's GHG generation.

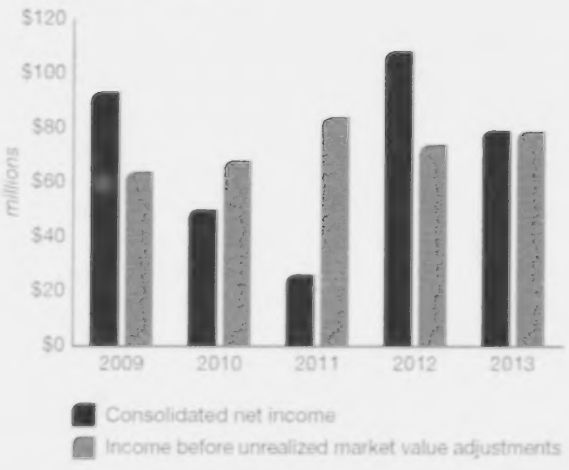
CONSOLIDATED FINANCIAL RESULTS

(millions)	2013	2012	Change
Income before unrealized market value adjustments	$ 79	$ 74	$ 5
Impact of fair value adjustments	(13)	13	(26)
Revaluation of natural gas in storage	13	21	(8)
Consolidated net income	$ 79	$ 108	$ (29)

Income before unrealized market value adjustments was $79 million for 2013. Cold weather and record levels of customer connections were the key highlights for 2013 and the main drivers of the Corporation's strong operating results. The cold weather led to increased natural gas consumption, and when combined with a significantly lower average cost of commodity gas sold, resulted in a $5 million improvement in income before unrealized market value adjustments.

While natural gas prices continued to be a factor that can drive significant volatility, as evidenced by the $34 million change in unrealized market value adjustments on a year-over-year basis, unrealized market value adjustments had no impact in 2013 as favourable adjustments related to natural gas prices were offset by declines in the fair value of the Corporation's debt retirement funds.

Consolidated Financial Results



Natural Gas Prices

Natural gas prices are set in an open market and are influenced by a number of variables including production, demand, natural gas storage levels and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months and the demand for natural gas to generate incremental electricity for air conditioning in the summer, weather has the greatest impact on natural gas prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices can be very volatile.

2013 marked the fifth consecutive year of relatively low natural gas prices. The application of technology in the development of shale gas production has altered the North American supply/demand balance. Natural gas production within the United States has experienced a complete reversal, with production now at record levels, from dwindling supplies only a few years ago. The expansion of shale gas production in the United States has reduced the need for natural gas to be imported from Canada and lowered natural gas prices.

In Saskatchewan, natural gas is still produced from conventional wells as the technology currently used in other shale formations in North America does not work effectively in the shale formation covering a large portion of the province. As a result, natural gas drilling and production in the province has declined drastically. While natural gas produced during the oil production process, associated gas, has offset some of the production decline in the province, in 2011 Saskatchewan became a net importer of natural gas. Natural gas production decreased more than 40 per cent since 2008, with natural gas imported from Alberta making up 38 per cent of Saskatchewan supply in 2013.

Year-over-year, natural gas prices increased. Prices at AECO, the major Canadian natural gas hub located in Alberta, started the year below $2.90 per gigajoule (GJ) and by the end of the year were near $3.70 per GJ. The price increase was due in part to colder than normal weather during the winter months, which increased demand from residential and commercial customers. In Canada, prices were also impacted by TransCanada Pipelines transportation toll increases. The following chart presents AECO natural gas prices. Most natural gas in Saskatchewan is priced at a differential to the AECO price and is usually between $0.05 per GJ and $0.20 per GJ higher than AECO.

Natural Gas Prices

Natural Gas Sales and Purchases

Included within natural gas sales and purchases are rate-regulated commodity sales to distribution customers and non-regulated gas marketing activities. Although presented together within the consolidated financial statements, the Corporation manages these activities as distinct and separate businesses and, as such, the MD&A addresses these natural gas sales and purchases separately.

Commodity Sales to Customers

SaskEnergy sells natural gas to its distribution customers at a commodity rate approved by Provincial Cabinet based on the recommendations of the Saskatchewan Rate Review Panel. The commodity rate, which is reviewed April 1 and November 1 of each year, is determined based on rate-setting principles and is designed to recover the associated costs of natural gas sold to distribution customers without earning a profit or incurring a loss over the long term. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates.

For financial reporting purposes, the Corporation prepares its financial statements on a consolidated basis while applying IFRS. Consequently, the amounts determined for rate-setting purposes are different than those reported within its consolidated financial statements. While a gain or loss is commonly reported in the Corporation's consolidated financial statements, it should not be taken as indicative of the results recorded within the GCVA. The commodity sales to customers, as reported in the consolidated financial statements, were as follows:

(millions)	2013	2012	Change
Commodity sales	$ 230	$ 246	$ (16)
Commodity purchases	212	248	(36)
Realized (loss) margin on commodity sales	18	(2)	20
Impact of fair value adjustments	27	47	(20)
Margin on commodity sales	$ 45	$ 45	$ –

SaskEnergy manages the purchase price of natural gas it buys on behalf of customers through its natural gas price risk management program with two objectives in mind: reduce the volatility of natural gas prices; and, offer rates that are competitive to other utilities. The two objectives naturally oppose each other, and the balance between the two may change depending on existing market conditions.

In order to ensure a secure supply of natural gas, SaskEnergy contracts for the physical delivery of natural gas using non-financial derivatives, referred to as forward or physical natural gas contracts. The purchase price contained in these forward contracts may be fixed, or it may be based on a variable index price. SaskEnergy also uses financial derivatives, primarily natural gas price swaps, to manage the future purchase price of natural gas. While fixed price contracts reduce the impact of natural gas price volatility, variable or market prices can assist in offering competitive rates depending on the pricing environment.

As derivative instruments, these natural gas contracts are recorded at fair value until the date of settlement. Changes in the fair value of the derivative instruments, driven by changes in future natural gas prices and price differentials, are recorded in commodity purchases. Upon settlement of the contract, the amount paid or received by SaskEnergy is recorded in commodity purchases. For 2013, fair value adjustments increased the margin on commodity sales by $27 million as the $48 million unfavourable fair value position at the end of 2012 improved to $21 million at the end of 2013. The improvement was attributable to a narrowing of the differential between the average purchase price and the average market price on outstanding natural gas contracts, meaning the Corporation's existing future purchases were closer to year-end market prices. With persistent low natural gas prices in 2013, SaskEnergy shifted more emphasis on market pricing of natural gas during the summer period, while maintaining a high degree of stability during the winter months when customers use the most natural gas.

The realized margin on commodity sales excludes the impact of unrealized fair value adjustments on derivative instruments, as these adjustments can fluctuate significantly from one period to the next and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract. On a consolidated basis, the Corporation realized an $18 million margin on commodity sales, with average revenue of $3.79 per GJ and average cost of gas sold of $3.48 per GJ. This compared to a $2 million realized loss in 2012, with average revenue of $4.07 per GJ and average cost of gas sold of $4.11 per GJ. The lower average revenue per GJ was a result of the Corporation's last commodity rate adjustment effective April 1, 2012, when the rate was lowered from $4.55 per GJ to $3.82 per GJ. At the same time the Corporation, through its natural gas price risk management program, was able to secure a lower average cost of gas sold per GJ in 2013.

Gas Marketing Margin

(millions)	2013	2012	Change
Gas marketing sales	$ 370	$ 264	$ 106
Gas marketing purchases	338	217	121
Realized margin on gas marketing sales	32	47	(15)
Impact of fair value adjustments	(33)	(32)	(1)
Revaluation of natural gas in storage	13	21	(8)
Margin on gas marketing sales	$ 12	$ 36	$ (24)

SaskEnergy's gas marketing operation employs several different strategies, all of which attempt to optimize storage and transportation capacity available to the Corporation to earn a positive margin. The most significant gas marketing activity is focused on utilizing the storage capabilities of a depleted gas field in west-central Saskatchewan. The primary strategy involves the purchase of natural gas accompanied by a forward sales contract which essentially locks in a future profit margin. The decline in natural gas market prices over the past few years has also created an opportunity for the Corporation to purchase relatively low-priced natural gas to inject into this storage facility with the intent to sell it at a profit when prices rise. During off-peak periods the Corporation also optimizes transmission and storage capacity by purchasing and selling natural gas in the open market to generate additional margins. The margins earned on this activity benefit customers by reducing pressure on transmission and distribution tolls. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

Transactions undertaken through the Corporation's gas marketing strategies result in exposure to risk, especially given the volatility of natural gas market prices. Similar to the discussion regarding commodity sales, the Corporation may enter into various natural gas contracts to manage natural gas price risk for its gas marketing activities. These contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value are recorded in either gas marketing sales or gas marketing purchases, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is recorded in gas marketing sales or gas marketing purchases, as appropriate.

Although the Corporation remained in an overall favourable position, fair value adjustments on derivative instruments reduced the margin on gas marketing sales by $33 million as the favourable fair value declined from $42 million at the end of 2012 to $9 million at the end of 2013. This reflects the prolonged low natural gas prices, as sales contracts that the Corporation entered into when prices were high have now settled and the deal prices of more recent natural gas contracts are closer to market prices. As a result, the differential between the average selling price and the average market price on natural gas sales contracts has narrowed.

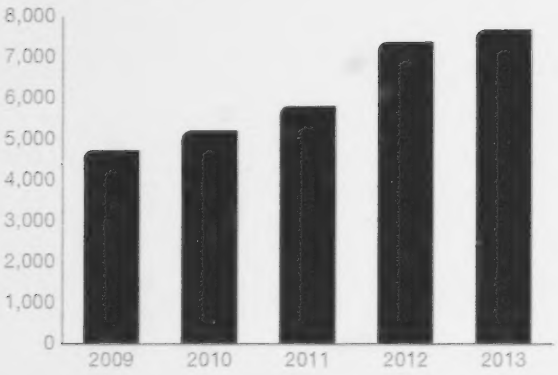
At each reporting period, the Corporation measures the net realizable value of gas marketing natural gas in storage based on forward market prices and anticipated delivery dates. The carrying amount of natural gas in storage inventory is then adjusted to reflect the lower of weighted average cost and net realizable value. Low natural gas prices have translated to reduced prices on the forward curve, and consequently, the net realizable value of gas marketing natural gas in storage remained below cost. However, lower volumes of natural gas in storage and improvements in the differential between the average cost and the average market price resulted in a $13 million improvement during 2013 – from a $24 million difference between the net realizable value and cost in 2012 to only $11 million in 2013. If forward natural gas prices continue to improve in relation to the cost of the Corporation's inventory, SaskEnergy will record an additional upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost. Otherwise, the revaluation will result in improved margins in the future, as contracts are settled by virtue of the lower carrying value of natural gas in storage.

The realized margin on gas marketing sales, which removes fair value adjustments on derivative instruments and the revaluation of natural gas in storage, was $32 million. This was a decrease of $15 million from last year as relatively stable and low market prices for natural gas limited the opportunity for the Corporation to realize significant margins.

Delivery Revenue

The Corporation earns delivery revenue based on the volume of natural gas delivered to distribution customers plus a basic monthly charge. Customer growth directly impacts the basic monthly charge revenue and leads to additional delivery volumes. The Corporation experienced another strong year in 2013, adding nearly 7,700 new residential, business and industrial customers to its distribution system, well above the 10-year average of approximately 4,800. While the Corporation experienced record levels of customer growth, there was also declining average usage per customer when normalized for the weather (1.0 per cent from 2012 to 2013) given advances in technology and energy conservation initiatives. The Corporation supports customer energy solutions and emission reduction initiatives in order to limit the environmental impact of our customers.

Net New Customers



Delivery revenue is also heavily influenced by weather. Weather throughout 2013 was 12.5 per cent colder than normal (based on weather data for the past 30 years) and 14.4 per cent colder than the previous year. In fact, a new record for daily natural gas consumption in the province was set during December 2013. The cold weather, along with the customer growth, contributed toward an additional 6.8 PJ of natural gas delivered to customers. The higher volumes resulted in $217 million in delivery revenue, a $23 million improvement on a year-over-year basis when combined with a delivery rate increase.

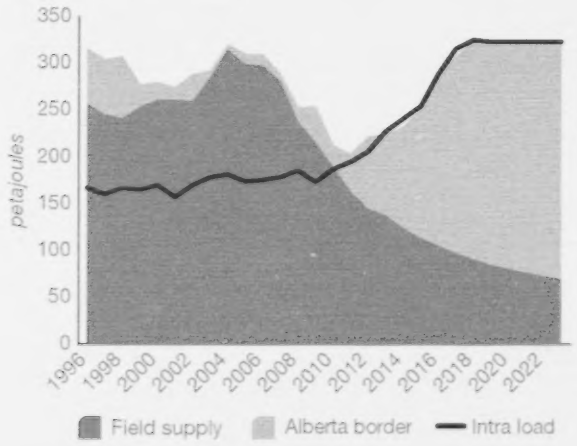
Saskatchewan's continued strong economic growth has led to greater demand for SaskEnergy's services, contributing not only to increased revenue but also to cost pressures. The Corporation continues to focus on safety and integrity programs, driving both capital investment and operating costs upward. These cost pressures were the primary drivers behind an increase in SaskEnergy's delivery service rates effective September 1, 2013 that resulted in an average bill increase of 2.1 per cent for residential customers, contributing to the

increase in delivery revenue on a year-over-year basis. As part of its recommendation that Cabinet approve the rate increase, the Saskatchewan Rate Review Panel recognized SaskEnergy's significant progress on its productivity and efficiency programs intended to mitigate the magnitude of rate increases. The Corporation, through its alignment with the Crown Sector Priorities, remains committed to delivering safe, reliable and affordable services to its customers at competitive prices. Even with the change to the delivery service rate, SaskEnergy's residential delivery costs remained the lowest of any natural gas utility in the country.

Transportation and Storage Revenue

The Corporation's subsidiary, TransGas, provides receipt and delivery transportation through the use of the TransGas Energy Pool (TEP), a notional point where producers, marketers and end-users can match supplies to demand. On the receipt side, the Corporation offers both firm and interruptible transportation from points of receipt to TEP. On the delivery side, the Corporation offers firm and interruptible service for gas delivered from TEP to consumers within Saskatchewan or for export. Integral to the Corporation's transmission system are several strategically located natural gas storage sites with the capacity to provide operational flexibility along with a reliable and competitive natural gas storage service.

Saskatchewan Gas Supply



The prolonged low market prices for natural gas continued to discourage natural gas drilling in Western Canadian conventional gas reservoirs, including those in Saskatchewan where only four natural gas wells were drilled in 2013. At the same time, the low market prices and expansion of the provincial economy have increased demand within the industrial sector and transitioned Saskatchewan from a net exporter to a net importer of natural gas. During 2013, the Corporation experienced an 11.4 per cent increase in deliveries within Saskatchewan as well as a 13.8 per cent increase in volumes imported from Alberta, contributing to $92 million in transportation and storage revenue, a $7 million increase when compared to the prior year.

The growing economy of Saskatchewan has presented both challenges and opportunities for the Corporation. Projects and strategies to increase Alberta border capacity have allowed the Corporation to continue to meet customers' needs for greater natural gas receipts. At the same time, the Corporation's expanding pipeline integrity program has ensured a safe and reliable system. This has added a significant degree of cost pressure to the transmission system, and effective March 1, 2013 the Corporation increased transportation rates by an average 1.4 per cent and storage rates by an average 6.4 per cent for an overall average 2.5 per cent increase. With this rate increase, the Corporation's storage rates still averaged less than in 2005. The storage rate increase was impacted by expansions that have occurred over the last several years, during which time the Corporation's storage rates decreased, and in 2013 a decrease in storage demand from customers reduced storage revenues. In executing its strategy to right-size storage capacity, the Corporation entered into an agreement to sell some of its storage assets near Melville. Proceeds from the sale, which will be recognized in 2014, will help reduce storage rate pressures.

Customer Capital Contributions

The Corporation receives capital contributions from customers in exchange for the construction of new, customer-specific service connections. These contributions, less potential refunds, are recognized as revenue once the related property, plant and equipment is available for use. The volume and magnitude of these contributions can vary significantly year over year as varying factors influence their receipt. Generally, customer capital contributions mirror the projects themselves – those related to the transmission system tend to be large but less frequent than contributions related to the distribution system. Despite additional customer capital contribution revenue for the distribution system, revenue of $24 million was $5 million below prior year given timing of the recognition of contributions for transmission projects.

Other Revenue

Other revenue, primarily consisting of natural gas processing operations and royalty revenues, of $12 million was consistent with the prior year. The Corporation's natural gas processing operations include gas processing at two separate gas plants and the sale of natural gas liquids from the processing operations. Increased production volumes and processing fees were offset by lower liquid prices resulting in no change when compared to the prior year. Royalty revenue from a gross overriding royalty on 450 natural gas-producing properties in Saskatchewan and Alberta was also consistent with the prior year as higher natural gas prices were offset by declining natural gas production.

Other Expenses

Significant changes in the Corporation's operations brought about by sustained customer growth, changes in natural gas supply and enhanced focus on safety and integrity have placed significant pressures on the Corporation's operating costs. The importance of safety, integrity and reliability within the Corporation and across the industry has magnified. While the safety, integrity and reliability of the Corporation's transmission and distribution systems comes at a considerable cost, it is essential to the Corporation's successful operations and the safety of the people of Saskatchewan.

Becoming a net importer of natural gas has substantially impacted the operations of our transmission system. Load growth from industrial demand has required the Corporation to move more natural gas, and with a substantial amount of that natural gas coming from Alberta, the Corporation is now transporting natural gas further distances. This not only increased the Corporation's third-party transportation costs by $3 million during 2013, but also led to a 24.0 per cent increase in compression horsepower hours (a measure of the utilization of the Corporation's compressor stations), further impacting operating costs. With the Corporation's commitment to productivity and efficiency, the increase in horsepower hours only led to a 16.0 per cent increase in fuel costs, as actions such as the development of mobile compression have improved the operating efficiency of the transmission system. The Corporation also actively managed third-party transportation costs, eliminating additional costs of approximately $2 million.

As very strong levels of new customer connections have become normal, serving a rapidly growing customer base has created challenges for the distribution system and contributed to higher operating costs. The Distribution Utility serves nearly 374,000 customers over 380,000 square kilometres resulting in a very large amount of infrastructure and one of the lowest customer densities anywhere in North America. The challenge of low customer density and large distances has required innovation and creativity – cost management is embraced as a key strategy for the Corporation. Although some initiatives, such as implementation of SaskEnergy's new CIS, added to costs in 2013, it is expected to improve and streamline processes to serve customers better.

Operating costs, which include employee benefits and operating and maintenance costs, increased from $169 million in 2012 to $188 million in 2013. While much of the increase can be attributed to the operational changes discussed above, there was approximately $7 million in non-recurring adjustments, such as the impairment loss from classifying the distribution assets of Swan Valley Gas Corporation as held for sale. Salaries and wages were also higher due to a combination of additional overtime, economic wage and salary adjustments for employees and a slight increase in the level of full-time equivalent employees.

Depreciation and amortization expense of $77 million for 2013 was $4 million higher than the prior year. The significant level of capital expenditures throughout 2012 and 2013 led to a higher capital asset base, resulting in additional depreciation and amortization expense. The Corporation also implemented two separate independent depreciation studies during 2013 – one related to the transmission business and the other related to the Distribution Utility. As changes in estimates, the results of both studies were applied prospectively commencing January 1, 2013 and resulted in an overall $2 million decrease in depreciation and amortization expense (see Note 3a of the consolidated financial statements for details).

Saskatchewan taxes of $11 million, which include corporate capital taxes paid to the Province and grants-in-lieu of taxes paid to municipalities, were $1 million higher largely due to increases in grants-in-lieu of taxes.

Net Finance Expenses

Net finance expenses, before the impact of fair value adjustments, were $40 million compared to $39 million in 2012 as lower debt retirement fund earnings resulted in a $1 million reduction in finance income. Within finance expenses, the Corporation had lower long-term debt interest, a result of carrying less long-term debt, which was offset by higher unwinding of the discount on provisions. As part of the Distribution Utility depreciation study implemented in 2013, the Corporation recognized a $52 million provision for the future removal costs of distribution assets, causing the related unwinding of the discount to increase. There was also a $7 million unfavourable fair value adjustment on debt retirement funds during 2013, an outcome of rising interest rates on the fair value of primarily fixed-rate investments.

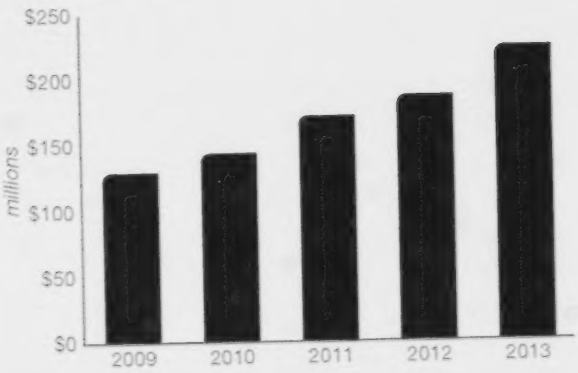
LIQUIDITY AND CAPITAL RESOURCES

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to $400 million in short-term loans from the Province's General Revenue Fund and a $35 million uncommitted line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1,700 million.

(millions)	2013	2012	Change
Cash provided by operating activities	$ 244	$ 172	$ 72
Cash used in investing activities	(221)	(181)	(40)
Cash used in financing activities	(25)	(10)	(15)
Decrease in cash during the year	$ (2)	$ (19)	$ 17

Cash from operating activities was $244 million in 2013, an increase of $72 million from last year. Colder than normal weather resulted in increased cash flow for the Distribution Utility. The Corporation also received some significant customer capital contributions related to the transmission system which, although not yet recognized in revenue, provided additional cash flow. Throughout 2012, the Corporation took advantage of a considerable drop in natural gas prices by increasing the volume of natural gas in storage held for gas marketing purposes. With natural gas prices higher in 2013, the Corporation sold some of this natural gas, thereby decreasing the volume in storage by 13.1 PJs and providing additional cash inflow.

Capital Expenditures



Cash used in investing activities totaled $221 million for the year, well above the five-year average. The high level of capital investment reflects system expansion resulting from growth in Saskatchewan as well as the Corporation's commitment to its robust safety programming and predictive integrity management systems. The Corporation balanced growth efforts with asset management projects, proactively identifying and replacing targeted infrastructure to reduce risk, such as the Moose Jaw bypass project. The Corporation also focused on a number of information system projects, most notably CIS, which improve efficiency and better position the Corporation to meet customer needs. The Corporation funds its high level of capital requirements with cash from operations and debt from the Province of Saskatchewan.

Cash used for financing activities was $25 million during 2013 as the Corporation paid dividends to its Shareholder, CIC, of $31 million. With strong operating results, the Corporation was able to fund the majority of its capital expenditures through cash from operations, receiving only $6 million net through the issuance of debt. SaskEnergy's debt-to-equity ratio at the end of the period was 58.8 per cent debt and 41.2 per cent equity, a slight improvement from 2012, but behind the Corporation's long-term target of 57.0 per cent debt and 43.0 per cent equity. This was due to higher debt balances, an outcome of heightened capital expenditures required to meet growing customer demand. Subsequent to year end the Corporation issued $100 million in long-term debt to reduce the short-term debt balances.

Outlook

With continued Saskatchewan growth, the Corporation plans to spend $300 million on capital investment in 2014, highlighted by a continued concentration on public safety, through system upgrading and integrity programming, as well as on meeting new infrastructure requirements. The Corporation is able to fund these capital expenditures, as well as its financial obligations, through its consistent operating cash flows and debt available through the Province. Given the Province's "AAA" credit rating, the Corporation is able to take advantage of historically low interest rates to fund these expenditures, matching the multi-generational life expectancy of the capital assets. Each year, through co-operation and consultation with the Province, CIC and management, the Corporation prepares a Debt Management Plan that factors the current interest rate environment with liquidity requirements to plan for short- and long-term borrowings for the coming years. In addition, the Corporation's strategic objective designed to inject natural gas into storage during low priced periods and hold it for resale in future periods will generate additional margins and cash flow for the Corporation.

In close alignment with the Government of Saskatchewan's Crown Sector Priorities and Saskatchewan Growth Plan, SaskEnergy's 2014 efforts focus around its four strategic mandates: Service Excellence, Achieving Growth, Our Team and Creating Value. The Corporation is well-positioned to achieve its business objectives in 2014. Over the five-year planning horizon, the Corporation's financial position will remain healthy, with industry comparable financial performance and debt-to-equity ratio. While realizing efficiencies, the Corporation is projected to achieve consistent profitability from operations with an income unrealized value adjustments target of $62 million in 2014.

RISK MANAGEMENT AND DISCLOSURE

The transmission, storage, distribution and sale of natural gas are subject to a number of risks that can affect SaskEnergy's success in achieving its business objectives. The Corporation cannot seek to eliminate risk, but rather ensures existing and emerging risks are identified, communicated and effectively managed through its Enterprise Risk Management (ERM) Policy. The ERM Policy establishes roles and responsibilities, as well as a general strategy for the Corporation to manage its risks. The Corporation identifies and manages its risks in support of its vision, mission and goals as set out in the Strategic Plan and throughout its operations.

Risk management is the responsibility of all levels of management in the Corporation; however, the Board of Directors and Executive Committee set the tone for ERM. The Executive Committee is responsible for formally identifying strategic risks that impact the Corporation's goals, actively participating in the risk assessment process and developing strategic risk management plans. The Board of Directors is responsible for the Corporation's risk management policy and framework. The Board executes its role in the risk management process by participating in the risk assessment process. The Board also reviews an annual report prepared by the Executive Committee that identifies the top corporate-wide risks, along with the processes and controls in place to manage and monitor each risk, the designated control owner(s) and the link to the Strategic Plan. The top results of this annual risk assessment process are discussed below.

Interest Groups

SaskEnergy is exposed to the risk of higher costs, delays or even project cancellations due to pressure by landowners and other interest groups. In recent years, the ability of landowners and interest groups to make claims and oppose projects in regulatory and legal forums has increased. This "not in my back yard" philosophy could impact the Corporation's ability not only to develop new facilities, through delays and additional costs, but also to operate existing facilities. Through various programs and strategies, including stakeholder engagement, aboriginal consultation, environmental assessments and public awareness, SaskEnergy works proactively with landowners and other interest groups to identify and develop appropriate responses to concerns regarding expansion and development of infrastructure.

Declining Saskatchewan Production

The transition from a net natural gas exporter to a net natural gas importer, a consequence of the substantial decline in natural gas production within Saskatchewan, has added complexity and increased costs for the transmission system to ensure that supply is available when and where needed. TransGas manages this risk through the business planning process, supply and demand forecasting and stakeholder consultation with existing and potential large customers. For the Distribution Utility this also adds complexity from a supply planning perspective that is managed through its gas procurement strategy.

Pipeline, Facility and Operational Failure

Pipeline, facility and operational failure could disrupt the effective operation of SaskEnergy's natural gas storage, distribution and transmission infrastructure, negatively impacting public safety, the environment and customers. Operational hazards include severe weather conditions, fire, human error, mechanical failures, third-party pipeline encroachment, hazardous materials and acts of civil disobedience and sabotage. The occurrence of any of these events, many of which are outside the control of the Corporation, could impact financial results through increased operating costs and/or reduced revenues. Some of the primary processes used to mitigate the Corporation's pipeline, facility and operational risk include system integrity, public awareness and safety programs; employee and operator training; and environmental policies and procedures. The financial impacts of these risks are also mitigated, where possible and appropriate, through insurance.

Attraction and Retention of Skilled Employees

With Saskatchewan's rapidly growing economy, competition to attract and retain skilled employees has increased. This risk is compounded by the significant number of the Corporation's employees who will be eligible to retire over the next five years. SaskEnergy's ability to attract and retain a sufficient number of appropriately skilled, diverse and motivated people will affect its ability to execute its Business Plan. SaskEnergy manages this risk through its recruitment, hiring and training processes. The Corporation also conducts a quarterly succession planning assessment and utilizes a cross training strategy. In addition, SaskEnergy monitors, and adjusts when appropriate, compensation and benefits as part of the job evaluation process, utilizing industry comparisons.

External Resource Management

Strong economic growth in the Province may result in a shortage of resources or expertise that could adversely affect the Corporation's ability to secure effective external resources. This could impact the execution of key projects or business strategy, leading to delays and cost overruns. As part of the Strategic Plan, SaskEnergy prioritizes activities in advance to ensure that resources are available when required. The Corporation then develops partnership agreements and long-term contracts, thereby reducing the risk of resource shortages on critical projects. In addition, the New West Partnership Trade Agreement and modifications to the tendering process have further assisted the Corporation in meeting its external resource requirements.

Integrated Information Systems

The Corporation's information systems are becoming increasingly integrated throughout operations, increasing the risk that a failure in one system could lead to a failure in another system, impacting the Corporation's ability to meet operational requirements. The Corporation mitigates this risk through its project prioritization process and project management methodology related to system development. The Corporation also has up-to-date business continuity and disaster recovery plans for critical operations as well as information technology processes.

Employer/Employee Relationship

The Corporation's relationship with its employees is important to the continued safe operation of its pipeline, storage and distribution system. Possible consequences of a deteriorating relationship with employees include loss of productivity and labour disruption. SaskEnergy maintains open dialogue with its union through joint union-management committees, the collective bargaining process, a focus on safety and providing an environment that offers employees a healthy work/life balance.

Infrastructure Delivery

In recent years, economic growth has put pressure on the Corporation's capacity to deliver services and infrastructure on a timely basis to meet stakeholder and customer expectations. To reduce the risk on delivery of services and infrastructure, the Corporation has focused on building relationships with key industry associations, project execution processes and project management, tendering practices and advanced planning and preliminary design. SaskEnergy also has cost containment strategies to ensure that rising construction and maintenance costs do not significantly exceed the growth of the distribution and transmission systems. The Corporation has policies requiring new customers to contribute to the cost of service connections to ensure that existing customers are not unduly affected by the addition of new customers.

Commodity Rate

Over the last few years, SaskEnergy and its customers have enjoyed the benefits of relatively low natural gas prices as gas has traded on the financial markets at prices well below the long-term average price. As natural gas prices, like other commodity prices tend to be "mean reverting", the expectation is that prices will rise in the future. Since SaskEnergy's commodity rates ultimately reflect the market price of natural gas, it is expected that the commodity rate will also increase. The magnitude of the increase in natural gas could drive increases that are seen as unacceptable or unmanageable from a customer's perspective. While SaskEnergy cannot control or manage the market price of natural gas, through its price risk management program, it can minimize the short-term impact of price changes on customers by hedging the purchase price of natural gas and passing the benefits onto customers through the commodity rate.

Regulatory Importance

The Corporation's delivery and transportation rates are approved by the Provincial Cabinet. For distribution rates, the Saskatchewan Rate Review Panel reviews the Corporation's proposed rate and makes recommendations to the Provincial Cabinet. For transportation rates, the Corporation seeks customer input on rates through the Customer Dialogue process before submitting its rate proposal to the Provincial Cabinet. The ability of the Corporation to obtain required rate changes through these processes directly affects financial results. The Corporation mitigates this regulatory importance by following standard regulatory principles in designing rates and operating its system and presents these practices in its rate applications. In addition, the Corporation demonstrates its commitment to controlling costs and improving service levels in every aspect of its operations, thereby enabling relative rate stability.

The Corporation is also subject to risks specifically related to financial instruments that, depending on the significance, may not have been discussed above. Risks specific to financial instruments are discussed in Note 11 of the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation prepares its consolidated financial statements in accordance with IFRS, using the accounting policies described in Note 3 of the consolidated financial statements. The application of these accounting policies requires management to make a number of judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. These judgments, estimates and assumptions, which are based on historical experience and other factors that are considered relevant, are reviewed on an ongoing basis. The Corporation's critical accounting policies and estimates, those that could materially impact the Corporation's consolidated financial statements, have been summarized below.

Unbilled Revenue

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. SaskEnergy estimates the volume of natural gas delivered but not billed, as it is currently impracticable to read all customer meters on December 31 of each year. The volume of unbilled sales is determined by comparing the estimated total volume of natural gas delivered to the distribution system to the volume of natural gas billed to customers. Regular meter readings throughout the year are used to reconcile volumes purchased with volumes billed. At year end, the unbilled revenue related to commodity sales and delivery revenue was $76 million.

Net Realizable Value of Natural Gas in Storage

The Corporation's natural gas in storage is valued at the lower of weighted average cost and net realizable value. When determining the net realizable value, the Corporation uses quoted future market prices based on anticipated delivery dates, taking into account the Corporation's existing natural gas contracts, ability to withdraw natural gas from storage and management's intention. At year end, the revaluation reduced the carrying amount of natural gas in storage by $11 million. A $0.21 per GJ improvement in the differential between the weighted average cost and net realizable value would completely eliminate the $11 million revaluation.

Fair Value of Derivative Instruments

The Corporation uses natural gas derivative instruments to secure its supply of natural gas and manage the impact of natural gas price variability. Prior to settlement, SaskEnergy records all natural gas derivative instruments at fair value. The fair value is determined based on quoted market prices and takes into account the credit quality of both counterparties and the Corporation. Given fluctuations in natural gas prices, fair value adjustments vary throughout the length of the contract. At year end, a $1.00 per GJ increase in natural gas prices throughout the forward curve would have increased the fair value of outstanding natural gas contracts by $35 million.

Depreciation and Amortization

With a combined carrying amount of $1,729 million, property, plant and equipment and intangible assets constitute a significant component of the Corporation's assets. As a result, changes in assumptions related to the calculation of depreciation and amortization expense may have a significant impact on SaskEnergy's net income. As at December 31, 2013, a one year decrease in the estimated service life of the Corporation's capital asset base would have increased the Corporation's depreciation and amortization expense by approximately $2 million.

The Corporation's property, plant and equipment and intangible assets are depreciated/amortized on a straight-line basis over the estimated service life of the asset. The estimated service lives are based on extensive studies with annual reviews for reasonability. Any changes in the estimated service life of an asset are treated as prospective adjustments to depreciation and amortization. Effective January 1, 2013, the Corporation implemented the results of independent depreciation studies on the Corporation's transmission and distribution assets. The resulting changes in depreciation rates led to a $4 million decrease in depreciation and amortization expense for the year.

Unearned Customer Capital Contributions

Customer capital contributions, related to the construction of new, customer-specific service connections, are recognized as deferred revenue until the related property, plant and equipment are available for use. The Corporation's customer capital contributions, particularly those related to the transmission system, are often subject to refunds over a certain period. Consequently, when the related property, plant and equipment is available for use, an estimate of the potential refund remains in deferred revenue until the refund period has passed. At year end, the Corporation estimated $59 million in customer capital contributions could be refunded in future periods.

Decommissioning Liabilities

The Corporation determines its obligations, legal and constructive, for the future costs of decommissioning certain natural gas facilities by estimating both the associated costs and timing of the necessary cash flows. The timing of future decommissioning is conditional upon the Corporation's anticipated ongoing use for these facilities, while future decommissioning costs are estimated based on the Corporation's experience and presented on a discounted basis. At year end, the Corporation's provisions were estimated at $71 million. A 0.5 per cent change in the discount rates used to determine the provisions would have resulted in an $8 million increase/decrease in provisions at the end of the year.

ACCOUNTING POLICY CHANGES

Several new and amended standards were issued by the International Accounting Standards Board (IASB) that became effective January 1, 2013. The impact of the adoption of these standards has been discussed in Note 3 of the Corporation's consolidated financial statements. Aside from International Accounting Standard (IAS) 19 *Employee Benefits*, adoption of the new and amended standards resulted in no impact on the Corporation's consolidated financial statements other than additional note disclosure. IAS 19 *Employee Benefits* had an immaterial impact on the Corporation's consolidated financial statements as actuarial gains and losses related to its retiring allowance plan can no longer be recognized in net income but rather in other comprehensive income. The Corporation applied IAS 19 retrospectively with details of the impact provided in Note 3 of the consolidated financial statements.

The IASB has issued several new and amended standards that will become effective in future periods. Details on future changes in accounting policies are provided within Note 3 of the consolidated financial statements. While the Corporation continues to review these standards, no material impacts on the Corporation's financial statements have been identified.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements are the responsibility of the management of SaskEnergy Incorporated (SaskEnergy or the Corporation) and have been approved by the Board of Directors (the Board). Management has prepared the consolidated financial statements in accordance with International Financial Reporting Standards, using management's best estimates and judgments where appropriate. Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the financial statements and all other financial information contained in this annual report.

The Corporation's Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and control. The Board is assisted in exercising its responsibility through its Audit and Finance Committee (the Committee). The Committee is composed of directors who are not employees of the Corporation. The Committee reviews the annual report and meets regularly with management, internal audit and external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements.

Management is also responsible for establishing and maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial statements. The internal control system includes an internal audit function and an established code of conduct.

The consolidated financial statements have been audited by Deloitte LLP, Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan. The Independent Auditor's Report expresses their opinions on the fairness of the financial statements prepared by management.

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer

[Original signed by C. Short]

Christine Short
Vice President, Finance and Chief Financial Officer

March 11, 2014

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

I, Doug Kelln, the President and Chief Executive Officer of SaskEnergy, and I, Christine Short, the Vice President, Finance and Chief Financial Officer, certify the following:

a. That we have reviewed the consolidated financial statements included within the annual report of SaskEnergy. Based on our knowledge, having exercised reasonable diligence, the consolidated financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows as of December 31, 2013.

b. That based on our knowledge, having exercised reasonable diligence, the consolidated financial statements do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.

c. That SaskEnergy is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and, the Corporation has designed internal controls over financial reporting that are appropriate to its circumstances.

d. That the Corporation conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of December 31, 2013, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

[Original signed by D. Kelln]

Doug Kelln
President and Chief Executive Officer

[Original signed by C. Short]

Christine Short
Vice President, Finance and Chief Financial Officer

March 11, 2014

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying consolidated financial statements of SaskEnergy Incorporated and its subsidiaries which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SaskEnergy Incorporated and its subsidiaries as at December 31, 2013, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Deloitte LLP]

Chartered Accountants

March 11, 2014
Regina, Saskatchewan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31

(millions)	Notes	2013	2012
ASSETS			
Current assets			
Cash		$ –	$ 2
Trade and other receivables	5	148	119
Natural gas in storage held for resale	6	208	238
Inventory of supplies	7	12	11
Debt retirement funds	8	6	2
Assets held for sale	9	4	–
Fair value of derivative instruments	10	28	53
		406	425
Intangible assets	12	47	37
Property, plant and equipment	13	1,682	1,501
Debt retirement funds	8	72	74
		$ 2,207	$ 2,037
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities			
Short-term debt	14	$ 380	$ 275
Trade and other payables	15	122	105
Dividends payable		10	11
Current portion of long-term debt	16	50	50
Deferred revenue	17	59	41
Fair value of derivative instruments	10	39	58
		660	540
Employee future benefits	18	10	12
Provisions	19	71	18
Deferred revenue	17	9	9
Long-term debt	16	712	762
		1,462	1,341
Province's equity			
Equity advances	20	72	72
Retained earnings		673	624
		745	696
		$ 2,207	$ 2,037

(See accompanying notes)

On behalf of the Board:

[Original signed by N. Joorisity]

Director

[Original signed by S. Barber]

Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31

		2013			2012		
(millions)	Notes	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 22)	Total	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 22)	Total
REVENUE							
Natural gas sales	23	$ 600	$ (37)	$ 563	$ 510	$ (32)	$ 478
Delivery		217	–	217	194	–	194
Transportation and storage		92	–	92	85	–	85
Customer capital contributions	17	24	–	24	29	–	29
Other	24	12	–	12	12	–	12
		945	(37)	908	830	(32)	798
EXPENSES							
Natural gas purchases (net of change in inventory)	23	550	(44)	506	465	(68)	397
Employee benefits		89	–	89	84	–	84
Operating and maintenance		99	–	99	85	–	85
Depreciation and amortization	26	77	–	77	73	–	73
Saskatchewan taxes	27	11	–	11	10	–	10
		826	(44)	782	717	(68)	649
NET INCOME BEFORE THE FOLLOWING		119	7	126	113	36	149
Finance income	28	4	(7)	(3)	5	(2)	3
Finance expenses	28	(44)	–	(44)	(44)	–	(44)
NET FINANCE EXPENSES	28	(40)	(7)	(47)	(39)	(2)	(41)
NET INCOME		79	–	79	74	34	108
Actuarial losses on defined benefit plan	18	–	–	–	(1)	–	(1)
TOTAL COMPREHENSIVE INCOME		$ 79	$ –	$ 79	$ 73	$ 34	$ 107

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

(millions)	Retained Earnings	Equity Advances	Other Components of Equity	Total
BALANCE AS AT JANUARY 1, 2012	$ 544	$ 72	$ –	$ 616
Total comprehensive income	108	–	(1)	107
Transfer to retained earnings	(1)	–	1	–
Dividends	(27)	–	–	(27)
BALANCE AS AT DECEMBER 31, 2012	624	72	–	696
Total comprehensive income	79	–	–	79
Dividends	(30)	–	–	(30)
BALANCE AS AT DECEMBER 31, 2013	$ 673	$ 72	$ –	$ 745

(See accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31

(millions)	Notes	2013	2012
OPERATING ACTIVITIES			
Net income		$ 79	$ 108
Add (deduct) items not requiring an outlay of cash			
Employee future benefits paid in excess of expense	18	(2)	(2)
Net change in fair value of derivative instrument assets and liabilities	22	6	(15)
Change in revaluation of natural gas in storage to net realizable value	22	(13)	(21)
Depreciation and amortization	26	77	73
Net finance expenses	28	47	41
Loss on disposal of assets		2	–
		196	184
Net change in non-cash working capital related to operations	29	48	(12)
Cash provided by operating activities		244	172
INVESTING ACTIVITIES			
Additions to intangible assets		(13)	(11)
Additions to property, plant and equipment		(208)	(170)
Cash used in investing activities		(221)	(181)
FINANCING ACTIVITIES			
Debt retirement funds redemptions	8	3	7
Debt retirement funds installments	8	(8)	(7)
Increase (decrease) in short-term debt		105	(39)
Proceeds of long-term debt		–	147
Repayments of long-term debt		(50)	(50)
Interest paid		(44)	(43)
Dividends paid		(31)	(25)
Cash used in financing activities		(25)	(10)
DECREASE IN CASH AND CASH EQUIVALENTS		(2)	(19)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		2	21
CASH AND CASH EQUIVALENTS, END OF YEAR		$ –	$ 2

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincially owned Crown corporation operating under authority of *The SaskEnergy Act*. The address of SaskEnergy's registered office and principal place of business is 1777 Victoria Avenue, Regina, Saskatchewan, Canada S4P 4K5. The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincially owned Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on March 11, 2014.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are described in Note 3:

- Financial instruments classified as at fair value through profit or loss
- Employee future benefits
- Provisions

c. Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, unless otherwise stated. All financial information presented in Canadian dollars has been rounded to the nearest million.

d. Use of estimates and judgments

In the application of the Corporation's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as any future periods affected.

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is included in Note 3 as well as the following notes:

- Revenue recognition related to unbilled revenue (Note 5)
- Existence of decommissioning liabilities (Note 19)

Information about significant management estimates and assumptions that have a significant risk of resulting in a material adjustment is included in Note 3 as well as the following notes:

- Estimated unbilled revenue (Note 5)
- Net realizable value of natural gas in storage held for resale (Note 6)
- Fair value of financial and derivative instruments (Note 10)
- Useful lives and amortization rates for intangible assets (Note 12)
- Useful lives and depreciation rates for property, plant and equipment (Note 13)
- Estimated unearned customer capital contributions (Note 17)
- Estimated future cost of decommissioning liabilities (Note 19)

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently by the Corporation and its subsidiaries to all periods presented in the consolidated financial statements, with the exception of the changes in accounting policies identified below.

a. Changes in accounting estimates

During the year the Corporation implemented the results of two independent third-party depreciation studies on certain items of property, plant and equipment and intangible assets, one related to its Transmission Utility assets and the other related to its Distribution Utility assets. As a change in estimate the impact was applied prospectively effective January 1, 2013 and resulted in an approximate $4 million reduction in depreciation and amortization expense for the year.

The Corporation also recognized provisions for the future removal costs of the Distribution Utility's assets, a result of both the above noted depreciation study as well as recent changes in the Corporation's historical experience with asset removals. By nature, the existence of decommissioning liabilities is a matter of management judgment with the amount subject to considerable management estimate. As such, the recognition of the decommissioning liabilities was a change in accounting estimate and applied prospectively. A provision of $52 million was recorded effective January 1, 2013 with a corresponding increase to property, plant and equipment. Decommissioning liabilities reflect the discounted anticipated future cash flows, and as such, the Corporation recognized an additional $2 million in finance expense for the year related to unwinding of the discount on the above decommissioning liabilities. In addition, the increase to property, plant and equipment resulted in an additional $2 million in depreciation expense for the year.

b. Changes in accounting policies

Effective January 1, 2013, the Corporation adopted amendments to IAS 19 *Employee Benefits* in accordance with the transitional provisions of the standard. The amendments, which impact the Corporation's defined benefit Retiring Allowance Plan, require the Corporation to recognize actuarial gains and losses immediately in other comprehensive income and all current service costs and interest expense immediately in net income. The Corporation will transfer any actuarial gains or losses from other equity to retained earnings in the year it is recognized in other comprehensive income. Prior to the amendments, the Corporation recognized actuarial gains and losses, current service costs and interest expense immediately in net income.

There was no impact on the Corporation's financial position from the application of this standard. Effective January 1, 2012, the beginning of the comparative period, $1 million in accumulated actuarial losses was reclassified to other equity and was immediately transferred to retained earnings in accordance with the Corporation's accounting policy. The impact on the Corporation's consolidated statement of comprehensive income from the application of this standard was as follows:

(millions)	2012
Employee benefits	$ (1)
Adjustment to net income	$ 1
Net actuarial loss on defined benefit plans	$ 1
Adjustment to other comprehensive income	$ (1)

In addition to IAS 19, the Corporation adopted the following other new and amended IFRS effective January 1, 2013:

IFRS 7 *Financial Instruments: Disclosures*
IFRS 10 *Consolidated Financial Statements*
IFRS 11 *Joint Arrangements*
IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 13 *Fair Value Measurement*
IAS 27 *Separate Financial Statements*
IAS 28 *Investments in Associates and Joint Ventures*

The adoption of these standards had no material impact on the consolidated financial statements other than disclosure requirements, which have been incorporated for the year ended December 31, 2013.

3. Summary of significant accounting policies (continued)

c. Basis of consolidation

Subsidiaries are entities controlled by SaskEnergy. The results of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. All intra-group balances and transactions are eliminated in preparing the consolidated financial statements. The Corporation's direct and indirect subsidiaries, which are wholly owned by SaskEnergy, are as follows:

Subsidiary	Principal Activity
Bayhurst Energy Services Corporation	Energy services company
Bayhurst Gas Limited	Natural gas storage company
BG Storage Inc.	Natural gas storage company
Many Islands Pipe Lines (Canada) Limited	Natural gas transmission company
Saskatchewan First Call Corporation	Underground infrastructure database company
Swan Valley Gas Corporation	Natural gas distribution company
TransGas Limited	Natural gas transmission and storage company

d. Joint arrangements

When assessing whether a joint arrangement is in the form of a joint operation or a joint venture, the Corporation considers the arrangement's structure, legal form and contractual terms as well as any other relevant factors. The Corporation's existing joint arrangements, which are identified below, are in the form of joint operations as the Corporation has the rights to the assets, and obligations for the liabilities, relating to the arrangements. The consolidated financial statements include the Corporation's share of jointly controlled assets, incurred liabilities, revenue and expenses as well as any liabilities and expenses that the Corporation has incurred directly in respect of its joint arrangements.

Joint Arrangement	Operating Jurisdiction	Interest	Principal Activity
Kisbey Gas Gathering and Processing Facility	Saskatchewan, Canada	50.0%	Natural gas processing
Totnes Natural Gas Storage Facility	Saskatchewan, Canada	50.0%	Natural gas storage

e. Cash and cash equivalents

The Corporation does not hold any short-term investments that would be classified as cash equivalents.

Bank indebtedness forms a part of the Corporation's cash management and is included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

f. Natural gas in storage

Natural gas in storage is stated at the lower of weighted average cost and net realizable value. Net realizable value is determined using natural gas market prices based on anticipated delivery dates.

g. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are stated at the lower of weighted average cost and net realizable value. Replacement value is used as management's best estimate of net realizable value. When estimating the net realizable value, the Corporation also considers any obsolescence that may exist due to changes in technology.

h. Debt retirement funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, the Corporation is required, on an annual basis, to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as debt retirement funds and are administered by Saskatchewan's Ministry of Finance. Debt retirement funds are designated as at fair value through profit or loss and are recorded at fair value in the consolidated statement of financial position. The investment is returned to the Corporation upon maturity of the related debt.

3. Summary of significant accounting policies (continued)

i. Assets held for sale

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell, with any resulting impairment loss recognized in operating and maintenance expense.

j. Financial and derivative instruments

The Corporation classifies its financial instruments into one of the following categories: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale and other liabilities.

All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments, except for financial assets and financial liabilities at fair value through profit or loss, in which case the transaction costs are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

i. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified as at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. A financial asset or financial liability is classified as held for trading if it has been acquired with the intention of generating profits in the near term, is part of a portfolio of financial instruments that are managed together where there is evidence of a recent pattern of short-term profit taking or is a derivative. A financial asset or financial liability is designated as at fair value through profit or loss if the Corporation manages such instruments and makes decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value with any revaluation gains and losses recognized in net income.

ii. Held-to-maturity financial assets

Financial assets classified as held-to-maturity have fixed or determinable payments and a fixed maturity, and the Corporation has the positive intention and ability to hold these financial assets to maturity. These financial assets are accounted for at amortized cost using the effective interest method. Amortized premiums or discounts and losses due to impairment are included in finance expense.

iii. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are accounted for at amortized cost using the effective interest method.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified in any of the previous categories. In cases where financial assets are classified as available-for-sale and carried at fair value, revaluation gains and losses related to changes in fair value are recorded in other comprehensive income until the asset is disposed of, at which time those gains and losses are recognized separately in the consolidated statement of comprehensive income.

v. Other liabilities

Other liabilities are non-derivative financial liabilities that are not designated as at fair value through profit or loss. These financial liabilities are accounted for at amortized cost using the effective interest method.

3. Summary of significant accounting policies (continued)

j. Financial and derivative instruments (continued)

vi. Derivative instruments

The Corporation utilizes a variety of derivative instruments to manage its exposure to natural gas price risk. Derivative instruments are classified as at fair value through profit or loss and are recorded at fair value within current assets or current liabilities, as applicable, commencing on the trade date. The change in the fair value is recorded in net income and classified within the revenue or expense category to which it relates.

Derivatives may be embedded in other host instruments. Embedded derivatives are treated as separate derivatives when the economic characteristics and risks are not closely related to those of the host instrument, the embedded derivative has the same terms as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with subsequent changes recognized in net income and classified within the revenue or expense category to which it relates. The Corporation utilizes natural gas sales contracts with embedded derivatives for non-regulated contract sales to large end-use customers.

k. Fair value measurements

For recurring and non-recurring fair value measurements, the Corporation estimates the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the reporting date under current market conditions. This requires the Corporation to make certain assumptions, including the principal (or most advantageous) market, the most appropriate valuation technique and the most appropriate valuation premise. The Corporation's own credit risk and the credit risk of the counterparty have been taken into account in determining the fair value of financial assets and liabilities, including derivative instruments.

In measuring fair value, the Corporation classifies items according to the following fair value hierarchy based on the amount of observable inputs:

i. Level 1

Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide ongoing pricing information. The Corporation did not classify any of its fair value measurements within Level 1.

ii. Level 2

Inputs are other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability as at the reporting date. Level 2 valuations are based on inputs, including quoted market prices, time value, volatility factors and broker quotations which can be substantially observed or corroborated in the marketplace.

The fair value of debt retirement funds is determined by Saskatchewan's Ministry of Finance using a market approach with information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

The fair value of natural gas derivative instruments is determined using a market approach. The Corporation obtains quoted market prices from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes.

The fair value of long-term debt is determined for disclosure purposes only using an income approach. Fair values are estimated using the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

iii. Level 3

Inputs are unobservable for the particular assets and liabilities as at the reporting date. The Corporation did not classify any of its fair value measurements within Level 3.

3. Summary of significant accounting policies (continued)

l. Intangible assets

Intangible assets, which include computer software and mineral rights, are recorded at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are capitalized if it is probable that the asset acquired or developed will generate future economic benefits. The costs incurred to establish technological feasibility or to maintain existing levels of performance are recognized in operating and maintenance expense as incurred.

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. The cost of self-developed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major projects are capitalized during the development period. Major projects (or qualifying assets) are those projects that are under development for a period greater than six months. Assets under development are recorded as in progress until they are available for use.

Amortization of computer software is based on the cost of the asset less its residual value and is calculated using the straight-line method over the estimated useful life of the asset from the date the asset is available for use. The amortization rates range from 10.0 to 20.0% annually. The estimated useful lives, residual values and method of amortization are reviewed annually for reasonableness.

Amortization (or depletion) of mineral rights and prepaid royalties is calculated using the unit of production method based on estimated proven and probable reserves. Depletion is considered a cost of inventory when the natural gas is produced. When the inventory is sold the depletion is charged to depreciation and amortization expense. The estimated proven and probable reserves, residual values and method of depletion are reviewed annually for reasonableness.

m. Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The cost of major inspections or overhauls is capitalized. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the specific item if it is probable that the part will generate future economic benefits, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized in operating and maintenance expense as incurred.

Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost of self-constructed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major projects are capitalized during the construction period. Major projects (or qualifying assets) are those projects that are under construction for a period greater than six months. Assets under construction are recorded as in progress until they are available for use.

When property, plant and equipment is disposed of or retired, the related cost, accumulated depreciation and any accumulated impairment losses are eliminated. Any resulting gains or losses are reflected in operating and maintenance expense in the period the asset is disposed of or retired.

Depreciation is based on the cost of the asset less its residual value and is calculated using the straight-line method over the estimated useful life of the asset from the date the asset is available for use at the following annual rates (per cent):

Distribution	1.5 to 5.3
Transmission and storage	2.0 to 20.0
Gathering, treatment and compression	2.0 to 33.0
Vehicles, equipment and other	2.5 to 20.0
Computer hardware	20.0 to 33.3

The estimated useful lives, residual values and method of depreciation are based on periodic depreciation studies with annual reviews for reasonableness.

3. Summary of significant accounting policies (continued)

n. Impairment

i. Financial assets

Financial assets, other than those classified as at fair value through profit or loss, are reviewed at each reporting date to determine whether there is any indication of impairment. Financial assets are impaired when there is objective evidence that the estimated future cash flows have been affected. Objective evidence of impairment could include significant financial difficulty, default or delinquency or indication of bankruptcy or financial reorganization of a counterparty.

The Corporation considers evidence of impairment for trade and other receivables on both an individual and a collective basis. In assessing collective impairment, the Corporation uses historical trends of the likelihood of default, timing of recoveries and the amount of losses incurred, adjusted for management's judgment as to the impact of current economic and credit conditions.

The carrying amount of trade and other receivables is reduced through the use of an allowance account. Once reasonable collection efforts have been exhausted, and a trade and other receivable balance is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized immediately in operating and maintenance expense.

ii. Non-financial assets

At each reporting date, the Corporation reviews the carrying amount of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount, and an impairment loss is recognized immediately in operating and maintenance expense. Assets that cannot be tested individually, including corporate assets, are grouped together into cash-generating units (CGUs), the smallest group of assets that generates cash inflow from continuing use.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the carrying amount of the asset (or CGU) does not exceed the carrying amount that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized.

o. Employee benefits

i. Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. When the service of employees is used directly in the construction of an asset, the cost of the short-term employee benefits is recognized within the cost of the related property, plant and equipment or intangible assets.

ii. Pension plans

The Corporation provides pension plans for all eligible employees through its participation in both a defined contribution plan and a defined benefit plan.

Under the defined contribution plan, the Corporation makes regular payments to a separate entity for current service and has no obligation to pay further amounts. Contributions are recognized within employee benefits expense during the period in which services are rendered by employees.

The defined benefit plan is administered by Saskatchewan Power Corporation (SaskPower), a Crown corporation under the common control of CIC. Employees that transferred employment from SaskPower upon establishment of SaskEnergy were eligible to remain members of the plan for the maximum contribution period of 35 years. A contractual agreement is in place stating that the Corporation's future contributions to the plan will not be affected by any plan surplus or deficiency. As a result, the Corporation's obligations related to the defined benefit plan are limited to making regular payments to the plan for current service, similar to a defined contribution plan. Contributions are recognized within employee benefits expense during the period in which services are rendered by employees.

3. Summary of significant accounting policies (continued)

o. Employee benefits (continued)

iii. Retiring allowance plan

Certain employees of the Corporation are members of a retiring allowance plan. The Corporation's obligation is the amount of future benefit that employees have earned in return for their service in the current and prior periods. At each year end, the future benefit is actuarially determined using the projected unit credit method. Any actuarial gains or losses are recognized in other comprehensive income while all current service costs and interest expense are recognized in net income. The Corporation transfers any actuarial gains and losses from other equity to retained earnings in the year it is recognized in other comprehensive income.

The Corporation has not established a trust nor does it hold property for the specific purpose of providing benefits to the participants of the plan. Benefits are funded by the current operations of the Corporation.

p. Provisions

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that the Corporation will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

i. Decommissioning liability

A decommissioning liability is a legal or constructive obligation associated with the decommissioning of certain natural gas facilities. The Corporation recognizes a decommissioning liability, with a corresponding increase to property, plant and equipment, in the period the facility is commissioned, provided a reasonable estimate of the expenditure required to settle the present obligation can be determined. The estimated expenditure of a decommissioning liability is based on detailed studies that take into account various assumptions regarding the anticipated future cash flows, including the method and timing of decommissioning. The Corporation discounts the future cash flows at a credit-adjusted risk free rate based on the yield of Government of Canada bonds. The unwinding of the discount on provisions is recognized in net income as finance expense over the estimated time period until settlement of the obligation. The corresponding increase to property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the related asset. At each reporting date, the estimated fair value of a decommissioning liability is reviewed with any changes recognized in the consolidated financial statements.

q. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized when it is probable that future economic benefits will flow to the Corporation and these benefits can be measured reliably.

i. Natural gas sales and delivery revenue

Revenue is recognized when natural gas is delivered to the customer. An estimate of natural gas delivered but not billed is included in revenue.

ii. Transportation and storage revenue

Revenue is recognized when transportation, storage and related services are provided to the customer. An estimate of transportation, storage and related services rendered but not billed is included in revenue.

iii. Customer capital contribution revenue

The Corporation obtains customer capital contributions related to the construction of new service connections. Customer capital contributions are recognized initially as deferred revenue and are recognized as revenue once the related property, plant and equipment is available for use. The Corporation's customer capital contributions are often subject to refunds over a specified period. An estimate of these refunds remains in deferred revenue until the eligible refund period expires.

3. Summary of significant accounting policies (continued)

q. Revenue (continued)

iv. Revenue collected for municipalities

In accordance with *The SaskEnergy Act*, the Corporation is required to collect amounts on behalf of certain municipalities. The Corporation acts in the capacity of an agent rather than as the principal in the collection of these amounts. Therefore, the revenue collected for and paid to municipalities is recognized on a net basis in operating and maintenance expense.

v. Government grants

Government grants are recognized initially as deferred revenue when there is reasonable assurance that the Corporation will comply with the relevant conditions of the grant and the grant will be received. Grants that compensate the Corporation for expenses incurred are recognized in other revenue in the same period the related expenses are recognized. Grants that compensate the Corporation for the cost of an asset are recognized in other revenue on a straight-line basis over the estimated useful life of the asset.

vi. Other revenue

Royalty revenue is recognized when natural gas from wells subject to royalty agreements is delivered to the customer. Natural gas and liquid sales are recognized when natural gas and natural gas liquids are delivered to the customer.

r. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or development of a qualifying asset are added to the cost of that asset, until it is available for use. Qualifying assets are those assets that take a substantial period of time to get ready for their intended use. As the Corporation borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Corporation capitalizes borrowing costs by applying its weighted average cost of debt. All other borrowing costs are recognized in finance expense in the period in which they are incurred.

s. Leased assets

The Corporation's leased assets are under operating leases. As the Corporation does not assume substantially all of the risks and rewards of ownership, the leased assets are not recognized in the Corporation's consolidated statement of financial position. Lease payments are recognized in operating and maintenance expense in the period in which they are incurred.

t. Future changes in accounting policies

The following new and amended standards are not yet effective and have not been applied in preparing these consolidated financial statements:

IFRS 9 *Financial Instruments* – The IASB has broken the development of IFRS 9 into three phases: classification and measurement (Phase 1), impairment methodology (Phase 2) and hedge accounting (Phase 3). Phase 1 reduces measurement classification of financial assets to one of two categories: amortized cost or fair value. The classification is based on an entity's business model for managing the asset and the contractual cash flow characteristics of the asset. Phase 1 has been issued and was scheduled for mandatory adoption on or before January 1, 2015. During 2013 the IASB removed the mandatory adoption date and decided that a new date will be determined when the entire IFRS 9 project is near completion. SaskEnergy is continuing to review and monitor this new standard and has not yet determined the impact on its consolidated financial statements.

IAS 32 *Financial Instruments: Presentation* – clarifies certain items regarding offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014. The Corporation has reviewed the amendments to this standard and does not believe this will have any impact on its consolidated financial statements.

4. Capital management

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe, reliable service to Saskatchewan residents, businesses and industries.

The Corporation finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan's General Revenue Fund, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $1,700 million of debt upon approval of the Lieutenant Governor in Council (2012 – $1,700 million). At the end of the year, the Corporation had $1,142 million of debt outstanding (2012 – $1,087 million) and authority to borrow an additional $20 million of temporary loans (2012 – $125 million), including a $35 million uncommitted line of credit with Toronto-Dominion Bank (2012 – $35 million).

The Corporation borrows all its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan (the Province). The Corporation's borrowing requirements constitute a minor portion of the Province's total borrowings, and given the Province's strong credit rating, the Corporation was able to acquire all its funding requirements during the year.

The Corporation monitors capital on the basis of the debt ratio, with a target of 57.0%. The purpose of this strategy is to ensure the Corporation's debt is self-supporting and does not adversely affect the Province's access to capital markets. The debt ratio was calculated as net debt divided by total capital at the end of the year as follows:

(millions)	2013	2012
Long-term debt	$ 762	$ 812
Short-term debt	380	275
Debt retirement funds	(78)	(76)
Cash	–	(2)
Total net debt	1,064	1,009
Equity advances	72	72
Retained earnings	673	624
Total capital	$ 1,809	$ 1,705
	58.8%	59.2%

The Corporation's objectives, policies and processes for managing its capital were consistent with the prior year. The Corporation complied with all externally imposed requirements for its capital throughout the year.

Subsequent to December 31, 2013, the Corporation converted $100 million of short-term debt into long-term debt.

5. Trade and other receivables

(millions)	2013	2012
Unbilled revenue	$ 86	$ 62
Trade receivables	49	45
Other receivables	14	14
	149	121
Allowance for doubtful accounts	(1)	(2)
	$ 148	$ 119

6. Natural gas in storage held for resale

(millions)	2013	2012
Cost	$ 219	$ 262
Revaluation to net realizable value	(11)	(24)
	$ 208	$ 238

With the decline in natural gas market prices over recent years, the net realizable value of natural gas in storage at the end of the year was $11 million below cost (2012 – $24 million). As at December 31, 2013, the Corporation expects that $118 million of the current inventory value will be sold or consumed within the next year and $90 million of the current inventory value will be sold or consumed after more than one year.

7. Inventory of supplies

The cost of inventory of supplies recognized as operating and maintenance expense during the year was $18 million (2012 – $21 million). There was no revaluation of inventory of supplies and no reversal of any prior year revaluation during the year.

8. Debt retirement funds

(millions)	2013	2012
Balance, beginning of year	$ 76	$ 73
Installments	8	7
Redemptions	(3)	(7)
Earnings	4	5
Change in fair value	(7)	(2)
Balance, end of year	78	76
Less: Current portion of debt retirement funds	(6)	(2)
	$ 72	$ 74

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 5.0% for the year (2012 – 6.1%). As at December 31, 2013 amounts required to be invested in debt retirement funds in each of the next five years were as follows:

(millions)	2014	2015	2016	2017	2018
Installments	$ 8	$ 7	$ 7	$ 6	$ 5

9. Assets held for sale

As at December 31, 2013 the Corporation classified several non-current assets as held for sale within its consolidated statement of financial position. A description of the facts and circumstances of each sale transaction are discussed below.

During 2013, the Corporation committed to a plan to sell several natural gas storage assets within the next 12-month period. At that point, the Corporation classified these assets as assets held for sale on the consolidated statement of financial position. The assets continued to be measured at carrying amount, which was less than their fair value less costs to sell and were no longer depreciated. The carrying amount of assets held for sale as at year end was as follows:

(millions)	2013
Property, plant and equipment	$ 2

9. Assets held for sale (continued)

Also during 2013, the Corporation committed to a plan to sell the distribution assets of its subsidiary, Swan Valley Gas Corporation, within the next 12-month period. As a result, the Corporation classified these assets as assets held for sale on the consolidated statement of financial position as at December 31, 2013. The assets were revalued at the estimated fair value less costs to sell, which was less than the carrying amount of the assets, and will no longer be depreciated. The resulting impairment loss recognized was recorded within operating and maintenance expense for the year. The carrying amount, fair value less costs to sell and impairment loss was as follows:

(millions)	2013
PROPERTY, PLANT AND EQUIPMENT	
Carrying amount	$ 4
Fair value less costs to sell	2
Impairment loss	$ 2

10. Financial and derivative instruments

			2013		2012	
(millions)	Classification	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL AND DERIVATIVE ASSETS						
Cash	FVTPL	n/a	$ –	$ –	$ 2	$ 2
Trade and other receivables	LAR	n/a	148	148	119	119
Debt retirement funds	FVTPL	Level 2	78	78	76	76
Fair value of derivative instrument assets	FVTPL	Level 2	28	28	53	53
FINANCIAL AND DERIVATIVE LIABILITIES						
Short-term debt	OL	n/a	380	380	275	275
Trade and other payables	OL	n/a	122	122	105	105
Dividends payable	OL	n/a	10	10	11	11
Long-term debt	OL	Level 2	762	869	812	923
Fair value of derivative instrument liabilities	FVTPL	Level 2	39	39	58	58

Classification details:

FVTPL – fair value through profit or loss
LAR – loans and receivables
OL – other liabilities

The fair value hierarchy is not applicable where the carrying amount approximates fair value due to the short term nature of the financial instrument.

10. Financial and derivative instruments (continued)

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on the contract price. For natural gas price swaps, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price. As at December 31, 2013 natural gas derivative instruments had the following fair values, notional values and maturities:

(millions)	2014	2015	2016	2017	2018	Total
PHYSICAL NATURAL GAS CONTRACTS						
Fair value	$ (5)	$ 4	$ –	$ (1)	$ –	$ (2)
Notional value	(1)	5	(10)	(22)	(15)	(43)
NATURAL GAS PRICE SWAPS						
Fair value	(1)	(1)	(4)	(3)	–	(9)
Notional value	(1)	(1)	(4)	(3)	–	(9)
TOTAL						
Fair value	$ (6)	$ 3	$ (4)	$ (4)	$ –	$ (11)
Notional value	$ (2)	$ 4	$ (14)	$ (25)	$ (15)	$ (52)

Fair value – increase (decrease) in net income
Notional value – estimated undiscounted net cash inflow (outflow)

The fair value of the Corporation's outstanding natural gas contracts is presented in the consolidated statement of financial position as follows:

(millions)	2013	2012
Fair value of derivative instrument assets	$ 28	$ 53
Fair value of derivative instrument liabilities	(39)	(58)
	$ (11)	$ (5)

Financial assets and liabilities are offset within the consolidated statement of financial position if the Corporation has the legal right to offset and intends to settle on a net basis. When natural gas contracts settle or become realized, the Corporation records the amount due to or from counterparties within trade payables or trade receivables, respectively. The Corporation offsets these amounts when the counterparty and timing of settlement are the same, which reflects the Corporation's expected future cash flows from settling its natural gas contracts. At year end, the following amounts were netted within the statement of financial position:

(millions)	2013	2012
TRADE AND OTHER RECEIVABLES		
Gross amount recognized	$ 31	$ 39
Amount offset	(17)	(30)
Net amount presented in the statement of financial position	14	$ 9
TRADE AND OTHER PAYABLES		
Gross amount recognized	$ 41	$ 54
Amount offset	(17)	(30)
Net amount presented in the statement of financial position	$ 24	$ 24

11. Financial risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk and foreign currency risk), liquidity risk and credit risk related to its financial and derivative instruments. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation's risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use financial and derivative instruments to manage its risks. The Corporation's significant risk management policies include the Corporate Derivatives Policy, the Commodity Risk Management Policy, the Corporate Debt and Interest Rate Risk Management Policy, the Foreign Currency Risk Management Policy and the Corporate Credit Risk Management Policy. The objectives, policies and processes for managing risk were consistent with the prior year.

a. Natural gas price risk

The Corporation purchases natural gas for resale to its customers. While natural gas is purchased at fluctuating market prices, the Corporation sells natural gas to customers at a fixed commodity rate that is reviewed semi-annually. As part of its natural gas price risk management, the Corporation uses derivative instruments to manage the price of the natural gas it buys on behalf of its customers. The Corporation's objective is to reduce the volatility of natural gas prices and to have rates that are competitive to other utilities. The Corporation also purchases and sells natural gas in the open market to generate incremental income through its gas marketing activities.

The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation may use for price risk management include natural gas price swaps, options, swaptions and forward contracts.

The Corporation's commodity price risk management strategy establishes specific hedging targets, which may differ depending on current market conditions, to guide risk management activities. Additionally, the Corporation uses mark-to-market value, value-at-risk and net exposure to monitor natural gas price risk. These metrics are measured and reported daily to the Commodity Risk Management Committee, a subcommittee of the Corporation's Executive Committee.

Based on the Corporation's year-end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $36 million (2012 – $36 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $35 million (2012 – $36 million).

b. Interest rate risk

The Corporation's significant interest-bearing financial instruments are short-term variable rate debt and long-term fixed rate debt. Consequently, the Corporation is subject to interest rate risk on outstanding short-term debt balances as well as on future short-term and long-term borrowings. Interest rate risk is managed by adjusting the relative levels of short- and long-term debt depending on current market conditions. The Corporation monitors long-term debt levels by maintaining an industry-comparable long-term debt to long-term capital requirements ratio. The Corporation also prepares an annual corporate debt management plan which includes forecasts of borrowing requirements, financing strategies and target rates for interest rate risk management activities.

At year-end, the Corporation had $380 million of short-term debt outstanding, of which $100 million was at a fixed interest rate, and $50 million of long-term debt that will mature within the next year and may be refinanced. Based on these amounts, a 0.5% change in interest rates would increase or decrease the annual finance expense by approximately $2 million (2012 – $2 million).

The Corporation is also subject to interest rate risk related to debt retirement funds as the recorded fair value is driven by market prices which are largely determined by interest rates. Fluctuations in fair value of debt retirement funds can have an impact on the Corporation. During 2013, the fair value of debt retirement funds decreased $7 million (2012 – $2 million decrease).

11. Financial risk management (continued)

c. Foreign currency risk

The Corporation is exposed to foreign currency risk primarily through the purchase of goods and services that are payable in a foreign currency. The Corporation monitors foreign currency requirements and utilizes financial instruments to manage risk when an obligation in a foreign currency exceeds a predetermined amount. At year end, the Corporation had outstanding foreign currency contracts to purchase $13 million in United States dollars in exchange for Canadian dollars (2012 – $nil). A five cent change in the Canadian dollar relative to the United States dollar would have increased or decreased net income by approximately $1 million (2012 – $nil).

d. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at December 31, 2013 were as follows:

		Contractual Maturities			
(millions)	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years
Short-term debt	$ 380	$ 380	$ –	$ –	$ –
Trade and other payables	122	122	–	–	–
Dividends payable	10	10	–	–	–
Long-term debt	762	88	87	252	873
Derivative instruments	39	2	–	54	–
	$ 1,313	$ 602	$ 87	$ 306	$ 873

At year end, the Corporation's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund these contractual obligations.

In addition to the above, the Corporation has posted a $15 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by the Corporation on the NGX natural gas exchange in Alberta. NGX may draw upon the letter of credit if the Corporation fails to make timely payment for, or delivery of, natural gas as per the related contract.

e. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, trade and other receivables, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At year end, the maximum credit exposure to a single counterparty was $4 million (2012 – $19 million).

11. Financial risk management (continued)

e. Credit risk (continued)

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

(millions)	2013	2012
Cash	$ –	$ 2
Trade and other receivables	148	119
Debt retirement funds	78	76
Fair value of derivative instrument assets	28	53
	$ 254	$ 250

The following reflects an aging summary of the Corporation's trade and other receivables:

(millions)	2013	2012
Current	$ 140	$ 113
30 - 59 days	5	6
60 - 89 days	2	1
Greater than 90 days	2	1
	149	121
Allowance for doubtful accounts	(1)	(2)
	$ 148	$ 119

The change in the allowance for doubtful accounts in respect of trade and other receivables was as follows:

(millions)	2013	2012
Balance, beginning of year	$ 2	$ 2
Recoveries	1	1
Write-offs	(2)	(1)
Balance, end of year	$ 1	$ 2

12. Intangible assets

(millions)	Computer Software	Mineral Rights and Prepaid Royalties	Under Development	Total
COST				
Balance, January 1, 2012	$ 52	$ 3	$ 19	$ 74
Additions	–	–	6	6
Additions through internal development	1	–	4	5
Balance, December 31, 2012	53	3	29	85
Additions	7	–	7	14
Additions through internal development	31	–	6	37
Disposals	(6)	–	–	(6)
Transfers	–	–	(38)	(38)
Balance, December 31, 2013	85	3	4	92
ACCUMULATED AMORTIZATION				
Balance, January 1, 2012	44	–	–	44
Amortization	3	1	–	4
Balance, December 31, 2012	47	1	–	48
Amortization	3	–	–	3
Disposals	(6)	–	–	(6)
Balance, December 31, 2013	44	1	–	45
CARRYING AMOUNTS				
Balance, December 31, 2012	$ 6	$ 2	$ 29	$ 37
Balance, December 31, 2013	$ 41	$ 2	$ 4	$ 47

13. Property, plant and equipment

(millions)	Distribution	Transmission and Storage	Gathering, Treatment and Compression	Vehicles, Equipment and Other	Computer Hardware	Construction in Progress	Total
COST							
Balance, January 1, 2012	$ 857	$ 895	$ 239	$ 134	$ 14	$ 39	$ 2,179
Additions	68	80	13	10	2	174	347
Disposals	(1)	(4)	–	(4)	(2)	–	(11)
Transfers	–	–	–	–	–	(172)	(172)
Balance, December 31, 2012	924	972	252	140	14	41	2,343
Additions	143	62	16	9	2	210	442
Disposals	(2)	(3)	(1)	(1)	–	–	(7)
Classified as assets held for sale	(4)	(6)	–	–	–	–	(10)
Transfers	–	–	–	–	–	(180)	(180)
Balance, December 31, 2013	1,061	1,025	267	148	16	71	2,588
ACCUMULATED DEPRECIATION							
Balance, January 1, 2012	307	308	102	59	8	–	784
Depreciation	26	24	8	8	3	–	69
Disposals	(3)	(2)	–	(4)	(2)	–	(11)
Balance, December 31, 2012	330	330	110	63	9	–	842
Depreciation	25	30	9	8	2	–	74
Disposals	(2)	(2)	–	(2)	–	–	(6)
Classified as assets held for sale	(2)	(2)	–	–	–	–	(4)
Balance, December 31, 2013	351	356	119	69	11	–	906
CARRYING AMOUNTS							
Balance, December 31, 2012	$ 594	$ 642	$ 142	$ 77	$ 5	$ 41	$ 1,501
Balance, December 31, 2013	$ 710	$ 669	$ 148	$ 79	$ 5	$ 71	$ 1,682

14. Short-term debt

The Corporation's short-term debt is unsecured. At year end, short-term debt of $380 million (2012 – $275 million) was due to the Province of Saskatchewan's General Revenue Fund with an average interest rate of 1.8% (2012 – 1.1%).

15. Trade and other payables

(millions)	2013	2012
Trade payables	$ 80	$ 66
Interest payable	9	9
Other payables	33	30
	$ 122	$ 105

16. Long-term debt

(millions)	2013	2012
Balance, beginning of year	$ 812	$ 715
Proceeds	–	147
Repayments	(50)	(50)
Balance, end of year	$ 762	$ 812

At year end, the Corporation's long-term debt consisted of the following:

	2013		2012	
	Principal Outstanding *(millions)*	Effective Interest Rate	Principal Outstanding *(millions)*	Effective Interest Rate
GENERAL REVENUE FUND				
1 - 5 years	$ 259	4.7%	$ 309	4.3%
6 - 10 years	67	5.4%	67	5.4%
11 - 15 years	75	8.8%	75	8.8%
16 - 20 years	110	6.1%	110	6.1%
21 - 25 years	25	5.0%	25	5.0%
26 - 30 years	225	4.0%	225	4.0%
	761		811	
Unamortized debt premium/discount and issue costs	(4)		(4)	
	757		807	
OTHER LONG-TERM DEBT				
26 - 30 years	5	13.5%	–	0.0%
31 plus years	–	0.0%	5	13.5%
	762		812	
Less: Current portion of long-term debt	(50)		(50)	
	$ 712		$ 762	

The Corporation's long-term debt is unsecured. As at December 31, 2013 principal repayments due in each of the next five years were as follows:

(millions)	2014	2015	2016	2017	2018
Principal repayments	$ 50	$ 50	$ 84	$ 76	$ –

17. Deferred revenue

(millions)	2013	2012
CURRENT		
Unearned customer capital contributions	$ 59	$ 41
NON-CURRENT		
Unearned government grants	9	9
	$ 68	$ 50

a. Unearned customer capital contributions

(millions)	2013	2012
Balance, beginning of year	$ 41	$ 32
Additions	44	40
Refunds	(2)	(2)
Revenue	(24)	(29)
Balance, end of year	$ 59	$ 41

b. Unearned government grants

(millions)	2013	2012
Balance, beginning of year	$ 9	$ 9
Amortization	–	–
Balance, end of year	$ 9	$ 9

Unearned government grants represent amounts received to compensate the Corporation for the cost of certain items of property, plant and equipment. There are no unfulfilled conditions or other contingencies attached to these government grants.

18. Employee future benefits

a. Pension plans

During the year, the Corporation contributed $5 million (2012 – $5 million) to pension plans on behalf of employees for current services.

As at December 31, 2013 the Corporation no longer contributes to the defined benefit plan as all members have reached 35 years of service. While no longer contributing, a number of employees remain members of the plan until retirement.

b. Retiring allowance plan

(millions)	2013	2012
Balance, beginning of year	$ 12	$ 13
Benefits paid	(2)	(2)
Actuarial losses from changes in financial assumptions	–	1
Balance, end of year	$ 10	$ 12

No funds have been set aside to settle these obligations; therefore, there are no retiring allowance plan assets. Benefits paid are funded by the Corporation's current operations.

18. Employee future benefits (continued)

b. Retiring allowance plan (continued)

The Corporation measures its accrued employee benefits liability with an annual actuarial valuation as at December 31. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability were as follows:

	2013	2012
Discount rate	3.6%	3.1%
Long-term rate of compensation increases	3.0%	3.0%
Long-term rate of inflation	2.5%	2.5%
Annual termination rate		
Up to age 49	3.0%	3.0%
Thereafter	0.0%	0.0%
Average remaining employee service life	6.0 years	6.4 years

As part of the actuarial valuation, sensitivity analysis was performed to assess the impact of a change in key actuarial assumptions. The impact on the accrued employee benefits liability as at December 31, 2013 of changing the following assumptions 0.5% was as follows:

	2013	2012
DISCOUNT RATE		
Plus 0.5%	-2.2%	-2.3%
Minus 0.5%	2.3%	2.4%
LONG-TERM RATE OF COMPENSATION INCREASES		
Plus 0.5%	1.7%	2.2%
Minus 0.5%	-1.6%	-2.1%
ANNUAL TERMINATION RATE		
Plus 0.5%	-0.4%	-0.5%
Minus 0.5%	0.4%	0.5%

For employees who are members of Unifor (formerly the Communications, Energy & Paperworkers Union), the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to Unifor members upon retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon retirement in accordance with the terms of the plan.

For Executive, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to the date of retirement. Entitlements under the retiring allowance plan will be paid out to Executive upon retirement in accordance with the terms of the plan.

19. Provisions

(millions)	2013	2012
Balance, beginning of year	$ 18	$ 17
Provisions made	52	1
Provisions settled	(2)	–
Change in discount rate	1	–
Unwinding of discount	2	–
Balance, end of year	$ 71	$ 18

The Corporation has estimated the future cost of decommissioning certain natural gas facilities. For the purposes of estimating the fair value of these decommissioning obligations, it was assumed that the costs will be incurred between 2014 and 2109. The undiscounted cash flows required to settle the obligations total $235 million (2012 – $59 million). Discount rates between 1.3% and 3.8% were used to calculate the carrying amount of the obligation (2012 – 2.8% and 4.5%). No funds have been set aside by the Corporation to settle these obligations.

20. Equity advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC, which reflect an equity investment in the Corporation, to form its equity capitalization.

21. Commitments and contingencies

a. Commitments

At year end, the Corporation forecasted to spend $300 million (2012 – $236 million) on capital projects during 2014, and the Corporation had $80 million (2012 – $59 million) of outstanding contractual commitments for the procurement of goods and services in the future.

b. Leases

As at December 31, 2013 future minimum lease payments for operating leases entered into by the Corporation, as lessee, were as follows:

(millions)	2014	2015	2016	2017	2018	Thereafter
Minimum lease payments	$ 1	$ –	$ –	$ –	$ –	$ –

c. Contingencies

The Corporation remains involved in litigation in relation to a home explosion and other incidents during 2011 in Regina, Saskatchewan. The Corporation does not expect the outcomes to result in any material financial impact.

22. Unrealized market value adjustments

(millions)	2013	2012
Change in fair value of debt retirement funds	$ (7)	$ (2)
Change in fair value of natural gas derivative instruments	(6)	15
Change in revaluation of natural gas in storage to net realizable value	13	21
	$ –	$ 34

Unrealized market value adjustments represent the net income impact of measuring certain financial and derivative instruments at fair value subsequent to initial recognition (Note 10) and measuring natural gas in storage at the lower of weighted average cost and net realizable value (Note 6). These adjustments represent the change in the carrying amount of the related balance sheet item during the year and are dependent on the market prices and expected delivery dates at year end.

23. Natural gas sales and purchases

	2013			2012		
(millions)	Commodity	Gas Marketing	Total	Commodity	Gas Marketing	Total
NATURAL GAS SALES						
Natural gas sales to commodity customers	$ 225	$ –	$ 225	$ 221	$ –	$ 221
Realized on natural gas derivative instruments	5	370	375	25	264	289
Change in fair value of natural gas derivative instruments	–	(37)	(37)	–	(32)	(32)
	230	333	563	246	232	478
NATURAL GAS PURCHASES						
Realized on natural gas derivative instruments	(212)	(338)	(550)	(248)	(217)	(465)
Change in fair value of natural gas derivative instruments	27	4	31	47	–	47
Change in revaluation of natural gas in storage to net realizable value	–	13	13	–	21	21
	(185)	(321)	(506)	(201)	(196)	(397)
	$ 45	$ 12	$ 57	$ 45	$ 36	$ 81

24. Other revenue

(millions)	2013	2012
Royalty revenue	$ 1	$ 1
Natural gas liquid sales	11	11
	$ 12	$ 12

25. Revenue collected for and paid to municipalities

The Corporation is required to remit to 109 urban municipalities, in accordance with the provisions of *The SaskEnergy Act*, an amount calculated as either three per cent or five per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and are then remitted to the respective municipalities. During the year, the amount collected for and paid to municipalities, which was recognized on a net basis in operating and maintenance expense, was $17 million (2012 – $16 million).

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the amount collected to the related municipalities. During the year, the amount collected for and paid to municipalities, which was recognized on a net basis in operating and maintenance expense, was $2 million (2012 – $2 million).

26. Depreciation and amortization

(millions)	2013	2012
Depreciation of property, plant and equipment	$ 74	$ 70
Amortization of intangible assets	3	3
	$ 77	$ 73

The composite rate of depreciation was 3.1% during the year (2012 – 3.1%), and the composite rate of amortization was 3.7% during the year (2012 – 5.9%).

27. Saskatchewan taxes

(millions)	2013	2012
Corporate capital tax	$ 8	$ 8
Property taxes and other	3	2
	$ 11	$ 10

28. Net finance expenses

(millions)	2013	2012
Debt retirement funds earnings	$ 4	$ 5
Change in fair value of debt retirement funds	(7)	(2)
Finance income	(3)	3
Interest expense on short-term debt	(3)	(3)
Interest expense on long-term debt	(41)	(43)
Unwinding of discount on provisions	(2)	–
Borrowing costs capitalized to qualifying assets	2	2
Finance expenses	(44)	(44)
Net finance expenses	$ (47)	$ (41)

Borrowing costs were capitalized to qualifying assets using the weighted average cost of debt of 4.1% during the year (2012 – 4.1%).

29. Net change in non-cash working capital related to operations

(millions)	2013	2012
Trade and other receivables	$ (29)	$ (16)
Natural gas in storage held for resale	43	(3)
Inventory of supplies	(1)	(1)
Trade and other payables	17	2
Deferred revenue	18	6
	$ 48	$ (12)

30. Related party transactions

Balances and transactions between SaskEnergy and its wholly owned subsidiaries, which are related parties of SaskEnergy, have been eliminated upon consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

a. Transactions with key management personnel

Key management personnel include directors and executive officers. The compensation paid to key management for employee services was as follows:

(millions)	2013	2012
Short-term benefits	$ 3	$ 3

b. Other related party transactions

As a Crown corporation, the Corporation is ultimately controlled by the Government of Saskatchewan. Included in the consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Government-related entities are exempt from providing disclosure about individual related party transactions, other than the transactions with key management personnel disclosed above. Instead, government-related entities are required to disclose the types and extent of individually or collectively significant transactions with related parties. In determining individually significant transactions, the Corporation considers the size, type and terms of the transaction.

During the year the Corporation received $4 million (2012 – $10 million) from its parent company, CIC. The payments represent full reimbursement of the Corporation's costs associated with administering the Saskatchewan EnerGuide for Houses grant program. The reimbursements and associated costs have been recognized on a net basis in operating and maintenance expense.

There were no other individually or collectively significant transactions with related parties for the year. All other transactions with related parties were routine operating transactions that were settled at prevailing market prices under normal trade terms.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Susan Barber, Q.C.
McDougall Gauley LLP | Board Chair, SaskEnergy | Regina, Saskatchewan

Ms. Barber is a partner at McDougall Gauley LPP and is one of Canada's leading practitioners in labour and employment law. She holds both a Bachelor of Arts and Law Degree and brings a wealth of experience to the SaskEnergy Board of Directors, having previously served in leadership roles with many of Saskatchewan's most prominent companies and organizations. Ms. Barber has served as Chair of the SaskEnergy Board of Directors since 2013 and is a member of the Audit and Finance Committee and the Human Resources/Compensation Committee.

Victor Thomas
Aspen Medical Canada | Vice Chair, SaskEnergy | Regina, Saskatchewan

Mr. Thomas is a principal and Executive Director of Aspen Medical Canada, a subsidiary of Aspen Medical, which is an international firm with expertise in delivering healthcare solutions in complex and often remote environments. He has worked with companies around the world in the areas of governance, strategy and business development. In addition to a Master's Degree in Business Administration from the University of Regina and a Chartered Director designation from The Directors College program of McMaster University, he has completed certificate programs from York University, Université St. Anne and the University of Ulsan (South Korea). Mr. Thomas has served on the Board of Directors since 2008. He is Chair of the Human Resources/Compensation Committee and a member of the Governance Committee.

James Baker
J. P. Baker Management Inc. | Regina, Saskatchewan

Mr. Baker is President of J. P. Baker Management Inc. and has extensive experience in the oil and gas industry. His experience includes operating a consulting business specializing in the business development of oil- and gas-related initiatives in Saskatchewan and Alberta. Mr. Baker has served on the SaskEnergy Board since 2008. He is Chair of the Business Development Committee and a member of the Human Resources/Compensation Committee.

Norm Beug
N.B. Beug Consulting Inc. | Regina, Saskatchewan

Mr. Beug is President of N.B. Beug Consulting Inc. and previously worked as a Senior Advisor with The Mosaic Company while enjoying semi-retirement. Prior to that, he was Mosaic's Senior Vice President of Potash Operations, in which he was responsible for the Potash Business Unit's six North American mining operations. Mr. Beug earned a Bachelor's Degree in Mechanical Engineering from the University of Saskatchewan and has served on various community and industry boards and committees. He is a member of the Business Development Committee and the Human Resources/Compensation Committee.

David Bishop
McKercher LLP | Regina, Saskatchewan

Mr. Bishop is a partner at McKercher LLP where he practices commercial and residential real estate law, business law, criminal defence, criminal prosecution (as an agent of the Attorney General for Canada), and elder law. Actively involved in the legal community, he holds a Bachelor of Arts Degree, a Bachelor of Law Degree and a Chartered Director designation from The Directors College program of McMaster University. Mr. Bishop has served on the Board of Directors since 2008. He is Chair of the Governance Committee and a member of the Audit and Finance Committee.

Curt Chickoski
Martens Ranch Ltd./MCM Ranching Ltd. | Swift Current, Saskatchewan

Mr. Chickoski owns and manages two successful cattle and horse operations. He also serves on the Canadian Agri-Stability Appeals Committee, the Swift Current Creek Watershed Board, and as local supervisor for the Saskatchewan Cattle Feeders Association. Mr. Chickoski joined SaskEnergy's Board of Directors in 2010 and is a member of the Business Development Committee and the Human Resources/Compensation Committee.

Grant Gayton
Regina, Saskatchewan

Mr. Gayton has been a successful CEO and investor in information technology, publishing, and printing. He co-founded and developed Management Systems Limited, which became Saskatchewan's largest independent systems company and is now part of ISM Canada Ltd, a wholly owned subsidiary of IBM. As CEO of DirectWest Publishers and, later, of PrintWest Communications, he increased profitability and positioned both companies for future success. Past Chair of the Information Services Corporation Board of Directors and a past member of the Saskatchewan Roughriders Board, Mr. Gayton holds a Chartered Director designation from The Directors College program of McMaster University. He was appointed to the SaskEnergy Board of Directors in 2010 and is a member of the Business Development Committee and the Safety and Corporate Social Responsibility Committee.

Sharon Hodgson
Rural Municipality of Big River | Big River, Saskatchewan

Ms. Hodgson serves as Councillor for the Rural Municipality of Big River. Prior to that, she owned a forestry industry/road building business for 30 years, followed by a successful elk farm business, which was developed into one of the first registered trophy ranches in Saskatchewan. Ms. Hodgson has been a member of SaskEnergy's Board of Directors since 2010. She serves on the Governance Committee and the Safety and Corporate Social Responsibility Committee.

Nola Joorisity
Regina, Saskatchewan

Ms. Joorisity has worked as the Chief Financial Officer and Managing Director of Greystone Managed Investments Inc., and as the Chief Executive Officer and Director of Education at the Institute of Chartered Accountants of Saskatchewan. She holds Chartered Accountant, Certified Management Accountant and Fellow Chartered Accountant designations and has a Bachelor of Commerce from the University of Saskatchewan. Ms. Joorisity has been a member of SaskEnergy's Board of Directors since June 2013, and is the Chair of the Audit and Finance Committee and a member of the Safety and Corporate Social Responsibility Committee.

Allan Kerpan
Private Farming Operation | Kenaston, Saskatchewan

Mr. Kerpan is currently involved in the operation of the family farm with his son at Kenaston. He was twice elected to national office: in 1993, as the Member of Parliament (MP) for Moose Jaw-Lake Centre, and in 1997, as the MP for Blackstrap. He was one of the founders of the Saskatchewan Party and later became a Saskatchewan Party MLA (2003-07), serving as the critic for Crown Investments Corporation, Corrections, SaskTel, and SaskPower, respectively. Mr. Kerpan joined the Board of Directors in 2012 and is a member of the Governance Committee and the Safety and Corporate Social Responsibility Committee.

Neal Krawchuk
Mega Group Inc. | Saskatoon, Saskatchewan

Mr. Krawchuk is Vice President of Credit and Administration of Mega Group Inc., a privately held management and marketing company servicing the home furnishing industry throughout Canada and the United States. In addition, Mr. Krawchuk is a past member of the Investment Saskatchewan Board of Directors, and has extensive experience in commercial finance, sales and customer service. He was appointed to SaskEnergy's Board of Directors in 2009, and is Chair of the Safety and Corporate Responsibility Committee and a member of the Audit and Finance Committee.

Alfred Labas
Private Farming Operation | Yorkton, Saskatchewan

Mr. Labas owns and operates a long-standing family grain farm in Lestock. His professional experience includes service with Federated Co-operatives Limited, the Department of Indian and Northern Affairs, and a private accounting practice specializing in farm accounting and taxation. He also held leadership positions in various departments of the Provincial Government, and is active in the community. He was appointed to SaskEnergy's Board of Directors in 2010 and is a member of the Audit and Finance Committee.

Terry Ross
Crown Investments Corporation of Saskatchewan | Board Secretary | Regina, Saskatchewan

Mr. Ross has been an employee of CIC since 2005, with prior experience at Natural Resources Canada and Saskatchewan Environment, and is a former member of the Canadian Armed Forces. He has a Bachelor of Arts degree from the University of Saskatchewan, a Diploma in Resource Management from the Saskatchewan Institute of Applied Science and Technology and has attained a Chartered Directors designation from McMaster University, DeGroote School of Business. Mr. Ross has been the Board Secretary since June 2011.

OTHER 2013 BOARD MEMBERS

Nadine Krenosky
Mawer Investment Management Ltd. | Calgary, Alberta

Ms. Krenosky is Chief Compliance Officer with Mawer Investment Management Ltd. and she has more than 15 years of experience in the financial services industry. She has worked for two public accounting firms, a regulatory body, and was Chief Compliance Officer of a large asset management firm. Ms. Krenosky is a Chartered Accountant and Chartered Financial Analyst Charterholder, and has a Chartered Director designation. She served on SaskEnergy's Board of Directors since 2004, was Vice Chair since 2007, and ceased to be a director in 2013.

Robert (Rob) Pletch, Q.C.
MacPherson Leslie & Tyerman LLP | Regina, Saskatchewan

Mr. Pletch is Counsel at MacPherson Leslie & Tyerman LLP. He has acted for major clients regarding mergers, acquisitions, financings and development strategies. He holds both a Bachelor of Arts and Law Degree and has served the Saskatchewan business community in the areas of commercial and corporate law for more than 30 years. Mr. Pletch served as Chair of the SaskEnergy Board of Directors from 2008 until June 2013.

James Rybchuk, Q.C.
Regina, Saskatchewan

Mr. Rybchuk worked for McDougall Gauley LLP since1994 until he was appointed as a Provincial Court Judge in April 2013. Mr. Rybchuk served on the Board of Directors from 2008 until his judicial appointment in 2013.

Back row: Dean Reeve, Christine Short, Mark Guillet, Dennis Terry. Front row: Robert Haynes, Doug Kelln, Colleen Huber, Phil Sandham

EXECUTIVE COMMITTEE

Doug Kelln
President and Chief Executive Officer

Mr. Kelln brought a wide range of company knowledge when he was appointed President and CEO of SaskEnergy in 2004. Since starting with SaskPower's natural gas division in 1982, he has had increasing levels of responsibility in the areas of engineering, construction, planning, customer services, distribution operations, marketing and business development within SaskEnergy and TransGas. Mr. Kelln has a Bachelor of Civil Engineering degree.

Mark Guillet
Vice President, General Counsel and Corporate Secretary

Mr. Guillet is the Vice President, General Counsel and Corporate Secretary for the Corporation and is responsible for the Legal and Land Departments. He is also the Chief Privacy Officer. Mr. Guillet is a graduate of the University of Saskatchewan, a member of the Law Society of Saskatchewan and has experience in corporate, commercial, governance and privacy legal issues.

Robert Haynes
Vice President, Human Resources and Corporate Affairs

Mr. Haynes joined SaskEnergy in 1988 when he was appointed to the position of General Counsel and Corporate Secretary. In 1995, he became Vice President of Human Resources, adding Corporate Affairs responsibilities in 2011. In this role, Mr. Haynes is responsible for all aspects of the Corporation's human resources policies and practices, including the Corporation's Safety, Health and Environment area, as well as strategic corporate communication with key stakeholders, including employees, the media and government. Mr. Haynes has a Bachelor of Administration Degree, Public Policy and a Juris Doctor.

Colleen Huber
Vice President, Corporate Support

Ms. Huber is responsible for corporate technology, corporate procurement and inventory, buildings and security, and vehicles and equipment. She joined the Executive in 2000 after successfully progressing through various management positions within TransGas and SaskEnergy. She is a graduate of the University of Regina.

Dean Reeve
Executive Vice President, SaskEnergy

Mr. Reeve has worked in a number of financial, business development and customer service functions within SaskEnergy and TransGas and is currently the Executive Vice President responsible for SaskEnergy's Distribution Utility, Gas Supply and Business Development areas. In this role, he leads the customer service functions, business and marketing initiatives of SaskEnergy. Mr. Reeve has a Bachelor of Administration degree and a Chartered Accountant designation.

Phil Sandham
Vice President, Engineering, Construction and TransGas Operations

Mr. Sandham brings leadership and experience from his previous senior positions in Transmission Operations, Engineering and Technology, and Customer Services, to his current role as Vice President of Engineering, Construction and TransGas Operations. He is responsible for the engineering and construction services for SaskEnergy and TransGas, as well as ensuring the safe and reliable operation of the transmission system and overseeing the environmental initiatives for the Corporation. Mr. Sandham has a Bachelor of Science in Civil Engineering.

Christine Short
Vice President, Finance and Chief Financial Officer

Ms. Short joined SaskEnergy in August 2013. In her role, she is responsible for the strategic leadership and direction of the Corporation's financial reporting, treasury, billing services, payroll and financial planning activities. Prior to joining SaskEnergy, she was Vice President and Controller for Farm Credit Canada, responsible for the leadership of the Corporation's financial management, financial reporting, financial systems and procurement functions. Ms. Short has a Certified Management Accountant designation and is a member of Financial Executives International.

Dennis Terry
Senior Vice President, TransGas and Bayhurst Gas Business Services

Mr. Terry joined SaskEnergy in 2009 and was the Corporation's Vice President, Finance and Chief Financial Officer before accepting his current role in 2013. Prior to joining SaskEnergy, he was Chief Financial Officer for Yara Belle Plaine Inc. and gained experience in gas price management strategy development and oversight related to significant natural gas commodity purchases and hedging activities. Mr. Terry has a Bachelor of Administration degree and a Chartered Accountant designation.

CORPORATE GOVERNANCE DISCLOSURE

SaskEnergy's commitment to advanced governance practices demonstrates accountability to the Owner and its customers. Effective governance helps ensure that SaskEnergy operates as both a financially viable organization and a responsible Corporation.

SaskEnergy governance practices ensure that the Corporation's customers and employees are provided with fair and equitable treatment and that the correct levels of authority and accountability are established so that all employees can accomplish their work without unnecessary limitations or risks.

Board Stewardship/Mandate

The SaskEnergy Board of Directors (the Board) is responsible for the stewardship of the Corporation, and oversees and closely monitors the Corporation's adherence to provisions of *The SaskEnergy Act* and Regulations. The Board has adopted written Terms of Reference which state that the Board sets the strategic direction, ensures the integrity and adequacy of the Corporation's systems and management practices, and periodically examines the objectives and mandates of its structure. The Board promotes a culture of integrity, ensures that the principal corporate risks are managed, and evaluates the performance of, and monitors, financial results. The Board meets outside the presence of management at each meeting.

Board Composition

SaskEnergy's Board is representative of the Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints up to 12 members, and designates a Chair and a Vice Chair. Members possess a variety of attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, initiative and sound judgment. There are currently 12 people appointed to SaskEnergy's Board of Directors. These same 12 people are also appointed as members for the Boards of Directors for each of SaskEnergy's seven subsidiary companies. The Board Chair is Ms. Susan Barber, Q.C. and the Vice Chair is Mr. Victor Thomas.[1]

Independence

The matter of "independence from management" is based upon the definition set by Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the Directors have been employed with the Corporation. In this reporting period, none of the Directors have *direct* material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation. However, two Directors are, or were, partners in law firms that have performed legal services for the Corporation in 2013, and are thereby deemed to have a material *indirect* relationship with the Corporation under the above standard. The majority of Directors are independent; however, the Corporation is not in strict compliance with the CSA independence standard. The Corporation's Shareholder, the Crown Investments Corporation of Saskatchewan (CIC), has managed this independence issue through the development of a Protocol Regarding Lawyers Serving on Subsidiary Crown Corporation Boards of Directors. This Protocol adopts the principle that Directors must be free from any material relationship that may interfere with the Director's ability to exercise independent judgment in the best interests of the Corporation, or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the Protocol restricts Directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the Protocol such as pre-approval of legal services by an independent Board Committee, declarations of conflict, no direct benefit to the Director, and restriction of information to that Director. The Board has appointed a special ad hoc Committee of independent non-lawyer Board members to review and approve the Corporation's external legal service providers in accordance with this Protocol on an as-required basis and to review the total services being provided by these firms. In 2013, this ad hoc Committee met twice for this purpose. The Board Chair, Ms. Susan Barber, Q.C., and Governance Committee Chair, David Bishop, are lawyers who are subject to this Protocol and throughout this disclosure are indicated by an asterisk to reflect that they are not independent, due to the deemed material indirect relationship. All other Directors, including the Vice Chair of the Board are independent of management.

Committee Mandates and Membership

The Board fulfills its oversight responsibilities for the operation of SaskEnergy by utilizing its five Board Committees. The Terms of Reference or mandates of the Committees are reviewed annually, and updated where required. The Terms of Reference for each Committee establish the constitution, operations and areas of responsibility over which that Committee makes recommendations to the Board. Full details of the Terms of Reference for each Committee can be found on SaskEnergy's corporate website at www.saskenergy.com/about_saskenergy/governance.asp. Committees have also adopted work calendars to schedule and fulfill specific tasks and assigned responsibilities. Each Committee has the authority to engage and compensate outside advisors that it deems necessary to assist with its mandate.

[1] Ms. Barber was appointed to the Board and the position of Chair on June 25, 2013. Mr. Thomas was appointed to the position of Vice Chair on June 25, 2013. Mr. Robert Peach, Q.C. and Ms. Nadine Kronosky were Board Chair and Vice Chair respectively from January 1, 2013 to June 25, 2013.

Audit and Finance Committee

Chair: Nola Joorisity

Members: Susan Barber, Q.C.*, David Bishop*, Neal Krawchuk, Alfred Labas

The Audit and Finance Committee oversees the financial performance and ensures the integrity, effectiveness and accuracy of the Corporation's financial reporting, control systems, risk management and audit functions. The Committee ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall Strategic Plan, annual Business Plan and public policy objectives. The Committee meets regularly outside the presence of management with the appointed external auditor, the Provincial Auditor and Internal Auditors.

Except as qualified previously, all members of the Audit and Finance Committee are independent of management. All Committee members are financially literate, as that term is commonly defined with respect to the composition of audit committees within the CSA Multilateral Instrument 52-110, and their education and experience in understanding financial matters is addressed in their biographies on the governance portion of the SaskEnergy website.

The Committee had eight meetings during the year. Important issues dealt with during the year include the development of various Commodity Strategies to cover all natural gas transactions, the Customer Information System development updates, the corporate insurance review, the Audit Services (internal audit) Request for Proposal process, and various risk management activities and policies review. The Committee also dealt with SaskEnergy delivery and commodity rates, and with TransGas Limited service rates.

*Non-independent Board Member

Business Development Committee

Chair: Jim Baker

Members: Norm Beug, Curt Chickoski, Grant Gayton

The Business Development Committee provides guidance that enables SaskEnergy to grow in a strategic direction in alignment with SaskEnergy's natural gas storage expertise, adding value to the industry, and innovation in energy efficiency in support of the environment, through technology and processes. The Committee is comprised of members who assist the Board in oversight of new strategic and tactical Saskatchewan investments and business opportunities.

The Committee had five meetings during the year. Notable work of the Committee included review of a liquefied natural gas directional discussion paper, review of a directional discussion paper on compressed natural gas, and review of divestiture of non-core and non-required assets. The Committee oversaw the progress of projects on waste heat capture electrical conversion and monitored the Corporation's investments with third parties in a natural gas storage field, and in a southeastern Saskatchewan gas processing facility.

Governance Committee

Chair: David Bishop*

Members: Sharon Hodgson, Allan Kerpan, Victor Thomas

The Governance Committee is responsible for matters relating to SaskEnergy's corporate governance regime. It has input into the selection criteria for candidates for Board members, Chairs, and creates profiles of the desired skills, experience and competencies required of Directors. This Committee monitors compliance with the Corporation's Code of Business Conduct and Ethics, including waivers therefrom, the Corporation's Whistle Blower Policy, and Reporting of Losses reports. The Committee is charged with planning orientation and education programs to keep Directors informed and current with business and ethical requirements.

The Committee had five meetings during the year. Key work of the Committee included coordinating the 2012 Board and Board Chair evaluation process results, development of 2013 Committee, Committee Chair and peer evaluation process, the review of disclosures under the Corporation's Whistleblower Policy, the development of a revised potential qualified Board candidate list, the business/industry training for Directors, and the organization of a field tour in 2013 for Board members.

*Non-independent Board Member

Human Resources/Compensation Committee

Chair: Victor Thomas

Members: Jim Baker, Susan Barber, Q.C.*, Norm Beug, Curt Chickoski

The Human Resources/Compensation Committee is responsible for and assists the Board in overseeing the management of SaskEnergy's human resource strategic planning, programs and practices for the development and implementation of fair compensation, performance management and succession planning. The Committee also sets the CEO's performance goals and objectives, and conducts a detailed semi-annual assessment of the CEO's performance through the Committee Chair. The findings of this evaluation and any changes to the CEO's compensation as a result of the review are recommended to the Board. Further, the Committee makes recommendations to the Board regarding the approval of employee and Executive compensation, including measures and targets, and receiving direction on its mandate through communication with the Shareholder, CIC. An ad hoc Board Committee is created, when necessary, to identify and recommend to the Board candidates for the position of President and CEO, while the Human Resources/Compensation Committee oversees that the incumbent fulfills the role set out in the CEO Mandate.

The Committee had eight meetings during the year. Important issues dealt with during the year include the review and recommendation to approve a new four-year Collective Bargaining Agreement, the review and recommendation of a management short-term incentive plan, the review of the employee engagement survey results, the review of the total compensation market survey results, and reviewing an update on staffing challenges.

*Non-independent Board Member

Safety and Corporate Social Responsibility Committee

Chair: Neal Krawchuk

Members: Grant Gayton, Sharon Hodgson, Nola Joorisity, Allan Kerpan

The Safety and Corporate Social Responsibility Committee has a mandate to proactively address safety and corporate social responsibility (CSR) matters to assist the Corporation in being a corporate leader. The Corporation considers CSR to include: conducting business in a socially responsible, ethical and transparent manner; protecting the environment and safety of all individuals affected by our activities; listening and responding to community or stakeholder concerns; supporting human rights; and engaging, learning from, respecting and supporting the communities and culture with which we work. The Committee mandate includes the obligation to ensure that adequate and effective controls are in place to monitor CSR risk and compliance with regulatory and statutory requirements.

The Committee had five meetings during the year. Important issues dealt with during the year included the external, independent Health & Safety Audit, which demonstrated a favourable benchmark of SaskEnergy's safety management system against industry norms and maintained its Certificate of Recognition; the review of a new revised Drug and Alcohol Policy; review of third-party contractor's involvement with employee attendance and disability management program and the review of the Corporation's system integrity program activities. The Committee reviewed the Corporate Environmental Risk Management program, the Corporate Emissions Management program, a report relating to environment and sustainability, and customer satisfaction survey results.

Roles and Responsibilities

The roles and responsibilities of the Chair, Committee Chairs, individual Directors and the President and CEO are set out in written Position Descriptions and posted on SaskEnergy's website. The role of the Chair is to provide leadership in Board organization, processes, effectiveness and renewal, and to balance the roles of the Board and management in the course of the Board discharging its fiduciary and legal responsibilities.

Individual Directors have a Position Description for Directors that sets out the roles and responsibilities of Directors, including legal requirements, accountability, stewardship, knowledge and education, conflicts, confidentiality, as well as expectations for attendance and review of materials in preparation for meetings.

The CEO's Mandate sets out the principal duties and responsibilities for the President and CEO. These form the basis for the goals and objectives of the President and CEO and are incorporated into annual performance objectives against which the Human Resources/Compensation Committee measures the CEO's performance. The CEO Mandate was last reviewed and updated in 2010 by the Governance Committee and the Board.

To further assist in the delineation of roles and responsibilities assigned to management, the Board regularly reviews the authority it delegates to management through a series of execution and expenditure authorization policies, considering updates as organizational and business circumstances change. Additional limits are placed upon both management and the Board through legislation requiring Orders in Council, compliance with investment requirements, or changes to legislative mandate through *The SaskEnergy Act*. The Board has also approved a Bright Line Mandate, which is a decision-making matrix that sets out the ultimate decision-making body on key matters and is validated by the Board.

Strategic Planning and Reporting

One of the Board's principal duties is to provide leadership in setting the long-range strategic direction and to approve SaskEnergy's overall Strategic Plan. This comprehensive strategic planning process results in the Board's review and approval of the Corporation's Strategic Plan, annual operating and capital budgets, and Business Plan.

The Board of Directors participates with management to identify and set long-term goals for SaskEnergy through the strategic planning and business planning process. The corporate Business Plan involves a five-year rolling projection, updated annually. The Board oversees this process, providing input, guidance, validation, and critical evaluation of the Business Plan, Strategic Plan and its initiatives. The Board continues to provide oversight and support in the implementation of the plans and initiatives and to measure their success. Each year, the Board and senior management meet jointly to identify strategic risks, and to review strategies and measurable targets to gauge performance in managing those risks.

Public Policy Role

SaskEnergy is a statutory Crown corporation governed by *The SaskEnergy Act* and Regulations. By legislation, CIC is the holding corporation for all of Saskatchewan's commercial Crown corporations. CIC has the authority to establish direction for SaskEnergy related to matters set out in legislation.

As a provincial Crown corporation, SaskEnergy serves a public policy role. Its mission is to develop and deliver safe, reliable natural gas solutions that benefit its customers and Saskatchewan through its team of engaged employees and business alliances. SaskEnergy and its subsidiaries fulfill this mission through the operation of systems for natural gas distribution, transmission, storage, line locating and other related activities to promote energy conservation and the safe use of natural gas, while contributing to, and promoting, the economy of the Province. CIC approves SaskEnergy's Business Plan annually and sets any other strategic priorities against which the Shareholder will measure the Corporation's performance. SaskEnergy collaborates with other Saskatchewan Crown corporations to further CIC's stated priorities of enhancing efficiency gains through joint initiatives, and promoting an open business environment.

Approach to Governance

SaskEnergy is not legally obligated to comply with the Canadian Securities Administrators (CSA) governance guidelines, as it does not have share capital and is not a reporting issuer. However, it works toward those guidelines that are applicable and has benchmarked its governance practices against the CSA National Policy and Instrument Guidelines, guidelines of the Canadian Institute of Chartered Accountants (CICA), and observations of the Federal Auditors, Treasury Board and Conference Board of Canada, to address key performance indicators in the measurement of governance. The practices of SaskEnergy are substantially consistent with the foregoing standards as published.

Integrity and Ethics

SaskEnergy promotes a strong culture of ethical business conduct at all levels of the Corporation. The Board has approved and adopted a written Code of Business Conduct and Ethics (the Code) that applies to employees, officers and Directors of SaskEnergy. The Code, designed to promote integrity and deter wrongdoing, is based on values of fairness and honesty, equal treatment and accountability. It provides guidelines on handling information and protecting or using corporate assets, confidentiality, conduct with suppliers and customers, business hosting, international business, conflicts of interest, compliance with laws and policies, and reporting.

To further promote public confidence in the integrity of SaskEnergy and its employees, a Whistleblower Policy was adopted, which sets out a formal process for the reporting, investigation and appropriate follow-up for actual or potential wrongdoing. In 2011, the *Public Interest Disclosure Act* was enacted to provide employees with an additional mechanism to disclose wrongdoing. In addition, SaskEnergy's Owner requires disclosure to the police of all losses in excess of $200, and disclosure to the Board, CIC Board, and Minister of all losses over $500, pursuant to the Reporting of Losses Policy and processes.

Compliance with the Code is reinforced through mandatory training of all employees, and confirmed through the use of an online tool. The Code and the Whistleblower and Reporting of Losses Policies are posted on the SaskEnergy intranet site for employees, and the Code and Whistleblower Policies are on SaskEnergy's website for public access. A process is also posted on the website for members of the public to contact the Chair of the Governance Committee of the Board, in confidence, to report any potential violation of the Code or Whistleblower Policy.

Management monitors and reports on any issues arising under the Code annually, the Whistleblower Policy semi-annually, and the Reporting of Losses Policy quarterly, to the Governance and Human Resources/Compensation Committees who are charged with oversight of compliance with these policies.

In addition to the Code, SaskEnergy's Directors are required to abide by CIC's Directors' Code of Conduct. The Governance Committee, appointed as Ethics Advisor for this purpose, is required to administer, monitor and enforce the Directors' Code of Conduct, which includes reporting annually to the Board concerning compliance. It is also standard procedure to commence all Board and Committee meetings with an in-camera agenda item providing Directors with an opportunity to declare any conflicts of interest or any changes to outside employment or directorships they hold that may create a potential or perceived conflict of interest. Upon appointment, Directors declare directorships on, and material interests in, other business and any material contract entered into with SaskEnergy or its subsidiaries to the Governance Committee who works proactively to address any potential conflicts of interest. Agenda items are monitored by management, and those containing any item that a Director has disclosed a material interest in are not distributed to the Director. Likewise, any Director subject to CIC's Protocol Regarding Lawyers Serving on Subsidiary Crown Corporation Boards of Directors will recuse themselves from consideration of any item creating a potential conflict of interest. During the year there were no waivers granted by the Board to any Directors or Officers authorizing non-compliance with these policies.

Risk Identification and Management

SaskEnergy has a risk management process that is designed to identify potential events that may impact SaskEnergy and oversee the management of risk within accepted tolerance levels. Senior management holds primary responsibility for identifying inherent risks, and for designing and implementing initiatives to mitigate them. The Board expects management to manage these risks through the use of appropriate controls and delegations of authority. The Corporation has a formal Enterprise Risk Management Policy that was developed by management and was approved by the Board of Directors.

Each year, the Board and senior management independently follow a process led by Internal Audit to identify and prioritize significant risks, both residual and inherent. A report is prepared by the Director of Audit Services that summarizes the independent risk assessment findings of both the Board and management. This report is brought forward to be discussed at a Board meeting where senior management and the Board review the variations and risk mitigation plans to deal with or manage the residual risks.

Through the Business Plan, the Corporation addresses the key risks and implements solutions. The Board will monitor the risk management programs and oversee implementation of appropriate systems to manage identified risks either directly, or through the Audit and Finance Committee. The Audit and Finance Committee regularly reviews the Audit Services reports and will discuss significant risk areas with the internal and external auditors.

Integrity of Internal Controls and Management Systems

The Board and Audit and Finance Committee receive reports from, and work closely with, the internal and external auditors to promote financial transparency and ensure the integrity, effectiveness and adequacy of SaskEnergy's internal controls and management information systems.

As part of the Corporation's commitment to accountability, the Audit and Finance Committee reviews the financial performance of the Corporation quarterly. Natural gas purchase transactions and credit risk are reported by management and actively monitored by the Audit and Finance Committee.

Pursuant to the directive of CIC, SaskEnergy has in place a process regarding internal controls certification by the CEO and CFO. This process is designed to provide reasonable assurance regarding the effectiveness of SaskEnergy's internal controls over financial reporting.

SaskEnergy's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). As part of the December 31, 2013 year-end audit, the external auditors have provided an opinion that the Corporation's financial statements have been prepared in accordance with IFRS.

The Board oversees the annual external audit plan of the appointed external auditor for the audit of the Corporation's annual financial statements, and the annual Internal Audit plan carried out by SaskEnergy's Internal Audit group. To preserve the independence of the role of the external auditors, the Audit and Finance Committee must pre-approve all non-audit services undertaken by the external auditor in accordance with the Corporation's Non-Audit Services Policy.

Robust Succession Process

The SaskEnergy Executive team shows strong ownership and commitment to succession development, and uses a quarterly review process to address strategic positions, keep the plan current, respond to human resources developments, focus on continuous employee development and mitigate risks. Various strategic options are considered to address both short-term needs, in the event of emergency or unforeseen personal circumstances, and longer-term needs, due to business structural changes and planned retirements.

The Human Resources/Compensation Committee of the Board of Directors receives a succession update at each of their quarterly meetings and reports to the Board quarterly on the succession management process. The Board of Directors and President and CEO directly oversee the CEO portion of succession plans.

One Executive Officer retired from the Corporation in 2013. The President and CEO realigned the responsibilities of the Executive Officers resulting in the Vice President, Finance and Chief Financial Officer, taking over the role of the retired Officer. The Corporation, along with a representative of the Board, undertook an executive search for a candidate for the Vice President, Finance and Chief Financial Officer. The successful candidate for this position was hired externally from the Corporation.

Communications (with the Shareholder and Stakeholders)

SaskEnergy is committed to the principles of transparency, openness and timeliness in communication with its Owner, employees, stakeholders and the public. SaskEnergy regularly surveys employees and external stakeholders for feedback on its corporate activities and more information on these communications can be found in the MD&A section. The Corporation complies with the communication requirements set by the Shareholder and by statute, in accordance with the Board-approved external communications policy. Through the Board Chair, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister functions as a communication liaison among the Corporation, CIC, Cabinet, the Provincial Legislature and the public.

SaskEnergy strives to strike a balance between transparency and maintaining customer confidentiality in matters of communication and disclosure, as an entity subject to the *Freedom of Information and Protection of Privacy Act*. The Corporation is subject to annual disclosure requirements of the Legislative Committee regarding Crown Payee Disclosure on all payments over $50,000 to employees and suppliers, and for all grants, donations, and sponsorships over $5,000. All major public disclosures of corporate performance of the Corporation are subject to prior approval of the Board. Senior Executive members of SaskEnergy also appear before Legislative Committees to answer questions relating to the business of the Corporation in preceding years.

To facilitate feedback to and from the statutory Owner, the Board Chair communicates with CIC, and also participates in a CIC Chairs forum where communication and feedback is provided on its expectations of all Saskatchewan Crown corporations. SaskEnergy's President and CEO regularly provides briefing materials to the Minister of Crown Investments and the Minister Responsible for SaskEnergy.

CEO Assessment and Executive Compensation

The CEO's performance is assessed semi-annually against the objectives approved by the Human Resources/Compensation Committee, which are related to the CEO Position Description and aligned with shareholder public policy objectives, the annual Business Plan and the corporate Strategic Plan.

The governance standard established by the CSA for Executive compensation disclosure is to report by summary compensation table, complete with detailed formulas. However, the mandate for Executive compensation for Saskatchewan Crown corporations is established and monitored by the Owner, CIC, and as such, senior management compensation aligns with the guidelines established by CIC. Given these controls on Executive compensation, both the Board and senior management seek to provide information to the Owner, and any management compensation adjustments must fit within the parameters established by the Owner. The philosophy of providing market-based compensation is applicable throughout the Corporation, from senior management downwards: to set performance objectives and expectations at individual, departmental and corporate levels, and to work towards and measure the achievement of these performance objectives. A key principle in SaskEnergy's compensation strategy is to provide fair and equitable pay representative of the individual performance of management employees. The Human Resources/ Compensation Committee and the Board approve CEO and Executive compensation.

Direct reports of the CEO, including all Executive members, are required by legislation to file and report the details of their compensation and benefits and any changes to the Clerk of the Saskatchewan Legislature within 14 days. In addition, the Crown and Central Agencies Committee of the Legislative Assembly of Saskatchewan has, by policy, required Crown corporations, including SaskEnergy, to file an annual payee list which includes the total compensation of Executive members. The report is available on CIC's website at www.cicorp.sk.ca in the Media Releases section. The Human Resources/ Compensation Committee and the Board annually review the details of these compensation payment reports.

Board Renewal and Appointment

Appointment of Directors is ultimately made by the Government by Order in Council, upon recommendation of CIC and the Board of Directors. The Board, through the Governance Committee, undertakes an analysis of the skills and experience necessary for the composite blend, and full functioning of the Board and its Committees, and makes nomination recommendations, through the Board to the Minister of Crown Investments. The Governance Committee is charged with leading the process to identify, recruit and recommend qualified candidates for appointment to the Board, and assessing the skills and competencies for the Board and its Committees to support the strategic direction and operational needs of the Corporation. The Committee performs a skills gap analysis intended to assist in achieving a balance of the skills of Board members through the recruitment/appointment of new members. The Governance Committee may meet with potential candidates to assess the overall fit with the blend of skills and experience of the current Board, time availability or any potential conflicts that could limit their full participation. The Governance Committee also makes annual recommendations to the Board regarding the appropriate structure, size and composition of the Board and its Committees, as well as the required qualifications.

Board Orientation and Education

The Governance Committee and the Corporation, under its Board of Directors Training Policy, has a comprehensive orientation curriculum and training sessions to ensure that new and continuing Directors develop a strong understanding of SaskEnergy's business and current challenges, as well as the roles of the Board and Committees and the individual contributions Directors are expected to make. Board members also participate in continuing education on industry issues, financial reporting, business operations, procedural issues and ethical obligations to enhance their skills, abilities and knowledge currency. For 2013, the Board of Directors received training from management on public safety, corporate physical operations and systems and processes. This training included an explanation of the various aspects of corporate operations directed toward public safety, including Operations response to safety related matters, public awareness, risk management, integrity review and system design. This included a tour of facilities and viewing of some physical operations.

Board members interact with management and employees attending such functions as employee service awards, or touring corporate offices or business units at Board meetings.

CIC also facilitates additional Director training as part of its Subsidiary Crown Directors Training Program. During the year, CIC held three director training sessions with included two sessions facilitated by the Institute of Corporate Directors.

Board and Director Performance Assessment

The Governance Committee is responsible for implementing performance reviews for the Board, Committees, Chairs and individual Directors. It surveys the Directors to obtain feedback on the effectiveness and contribution of the Board, Committees, Chairs and individual Directors on a rotational, bi-annual basis. These results are summarized and reported to the Board as well as to the CIC Board. The Governance Committee may utilize the assistance of an external consultant to conduct this task. The Committee also conducts ongoing assessments of individual Directors, their training and skill sets. During the year, the process consisted of a Directors' survey on the performance and effectiveness of the Committees and Committee Chairs. The Board also engaged a third-party consultant to assist with individual Directors' peer evaluation process.

Director Remuneration

Compensation received by Directors is fixed by CIC under the *Crown Corporations Act, 1993*. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to such compensation. The Audit and Finance Committee receives quarterly reports respecting the remuneration of Directors and reports any anomalies to the Board. Directors are paid an annual retainer for their services on SaskEnergy's Board, as well as a set per diem fee for travel time and attendance at Committee and Board meetings as follows:

- Chair of the Board: annual retainer of $40,000;
- Other Directors: annual retainer of $25,000;
- Chair of Audit and Finance Committee: annual retainer of $3,500;
- Chairs of other Committees: annual retainer of $2,500;
- Committee members: $750 per day meeting fee; and
- Directors also receive reimbursement for their reasonable out-of-pocket expenses including travel, meals and accommodations while performing their duties.

Most Board members sit on two Committees. There were nine Board meetings and 32 Committee meetings during the year. The total remuneration paid to Directors (annual retainers, pro-rated for the portion of the year each Director was a member of or chaired a Committee, plus Committee per diems) was $396,902 compared to $323,850 in 2012. The total business travel and meeting expenses paid to members of the Board were $43,680 compared to $41,658 in 2012.

Membership and Attendance at Meetings of the Board and Board Committees

from January 1, 2013, to December 31, 2013

Member	Board	Audit	Bus. Dev.	Gov.	HR/ Comp	SCSR	Legal Serv.	Total	%
Barber (Chair)*	4/4	1/3			3/3			8/10	80
Baker	7/9		5/5		2/3	3/3	1/1	18/21	86
Bishop	9/9	7/8		3/3	4/4			23/24	96
Beug*	4/4		2/2		3/3			9/9	100
Chickoski	9/9		5/5		4/4		1/1	19/19	100
Gayton	9/9		5/5			4/5		18/19	95
Hodgson	8/9			5/5		5/5		18/19	95
Kerpan	8/9		2/3	3/5		2/2		15/19	79
Joorisity*	4/4	3/3				2/2		9/9	100
Krawchuk	8/9	8/8				5/5		21/22	95
Labas	9/9	8/8					1/1	18/18	100
Thomas	9/9			5/5	7/8		1/1	22/23	96
Pletch (Chair)**	5/5	4/5	2/3		5/5			16/18	89
Krenosky**	4/5	5/5			4/5			13/15	87
Rybchuk***	1/3			2/2	3/4			6/9	67

*June 25, 2013, Barber, Beug and Joorisity were appointed as directors. A total of four possible Board meetings to attend to end of 2013.

**June 25, 2013, Pletch, Krenosky, Rybchuk were removed as directors after serving on the Board for five, nine and five years respectively.

***Rybchuk resigned as a director effective April 26, 2013, as he was appointed as a provincial court judge in Saskatchewan. Only three possible Board meetings to attend in 2013. He was removed as a director by Order in Council on June 25, 2013.

For purposes of this report, Directors who attended meetings in part were considered to be present.

STAKEHOLDER ENGAGEMENT

Communications Models Employed at SaskEnergy

Strong two-way communications models support the achievement of business and corporate results. The Corporation is committed to rigorous and professional communications practices that support the principles of timeliness, openness and transparency with its stakeholder.

Customer and Public Communications

Continued business growth at SaskEnergy has entailed continued contact with the Corporation's base of more than 373,000 customers. To this end, an estimated more than one million direct interactions occur annually between the company and customers. In addition to standard customer billing and meter reading inquiries, growth has occurred relative to the Sask 1st Call service, which provides initial customer contact for 53 companies with underground facilities, including SaskEnergy and TransGas. To successfully manage increasing customer contact within the existing cost structure, SaskEnergy has also instituted response specialization at its 11 regional customer service offices.

TransGas fosters personal contact with its smaller transportation and storage customer base of less than 200 through dedicated account representatives. It also promotes contact through the TransGas Customer Dialogue Process, where customer rates and operational policies are jointly addressed before recommended implementation.

SaskEnergy also effectively works with the plumbing, heating and mechanical contracting industry, which is highlighted by the Industry Dialogue process and the creation of the SaskEnergy Network, through which more than 160 private sector plumbing and heating contractors use the SaskEnergy Network brand to deliver downstream services to natural gas customers.

Critical corporate initiatives, such as creating public awareness around energy efficiency and public safety ("Call Before You Dig"), are also promoted through multi-media advertising and communications campaigns, as well as direct contact programs, such as contractor safety breakfasts, first responder training sessions and landowner mail outs. SaskEnergy has a strong commitment to providing safe and reliable service to customers, ensuring they understand how to use natural gas safely and that we respond in a timely manner. This includes public awareness about what customers should do if they smell natural gas.

Major corporate initiatives, such as changes to the Corporation's delivery or commodity rates, are communicated through news conferences and public events, and are supported through information distributed through SaskEnergy's website and on customer bills. Enhanced tools, such as e-billing and equalized payment plans, allow customers greater control over the management of their natural gas bills. The Corporation continues to analyze the usage of social media tools in its utility business context.

The SaskEnergy website also provides access to corporate information, such as quarterly financial updates and annual reports, energy efficiency- and safety-related information, as well as career opportunities and a streamlined process for charities and non-profits to request financial support through the Corporation's community investment program.

The high level of efficacy and support for SaskEnergy's and TransGas' customer communications approach is reflected through ongoing high levels of customer satisfaction in its independent surveys.

Shareholder Communications

As a Crown corporation, SaskEnergy complies with the communications requirements set by the Shareholder and by statute, in accordance with the Board-approved external communications policy. Through the Board Chair, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister functions as a communications liaison among the Corporation, Crown Investments Corporation, Cabinet, the Provincial Legislature and the public.

SaskEnergy fully complies with its statutory obligations for approval and disclosure of information. These responsibilities include:

- Annual approval of the Corporation's business/performance management plan, including capital expenditures through its Shareholder, Crown Investments Corporation.
- Annual disclosure through Crown and Central Agencies, a public legislative committee of government, of all payments of over $50,000 to employees and suppliers, and of all grants, donations and sponsorships of over $5,000.
- Appearances before public committees of the legislature, including Crown and Central Agencies, by senior executive to answer questions relating to the business of the Corporation in preceding years.
- Compliance with public requests for information, balancing the interests of *The Freedom of Information and Protection of Privacy Act*.

SaskEnergy also works cooperatively with CIC, the office of the Minister Responsible for SaskEnergy and Executive Council Communications to generate dialogue, understanding and support for corporate initiatives that affect stakeholders. These communications tools include briefing notes, face-to-face meetings and other information packages to ensure elected officials are able to represent the Corporation in the public and through the media, by speaking knowledgeably on issues regarding the business operations of SaskEnergy. The Corporation is also expected to respond expediently to correspondence and case work submitted by the office of the Minister Responsible for SaskEnergy.

Project-based Communications

SaskEnergy's distribution, transmission and storage projects can impact the communities in which they are occurring. In addition to fully complying with all legal and regulatory considerations, SaskEnergy will typically hold consultations with affected stakeholders in areas where projects are of greater scope or longer duration. Such communications initiatives include public open houses and meetings with local municipal councils, First Nations representatives and other stakeholders. These initiatives allow company officials to explain the environmental impacts of proposed activities, including proposed mitigation plans. They also provide opportunities to enhance general understanding of the projects economic benefits and of natural gas as a heating source. Because Saskatchewan has approximately 75 First Nations Bands and 11 Métis Regions, a dedicated Aboriginal Relations group exists to better foster consultation, dialogue and relations.

Regulatory Communications

SaskEnergy is required to file any applications for delivery and commodity rate changes with the Saskatchewan Rate Review Panel (SRRP), an advisory Panel that provides formal recommendations to the Provincial Cabinet. The applications are available to the public. Typically, the SRRP will ask for additional information to assist in its review, and a public interaction component is provided through public meetings. SaskEnergy filed a two-year delivery service increase application in April of 2013, with no change to the commodity rate during the year. After review, the SaskEnergy application was recommended to, and approved by Cabinet. SaskEnergy continued to have its lowest commodity rate since 2000, and the lowest residential delivery rate in Canada in 2013.

TransGas' proposed rate changes are discussed through the TransGas Customer Dialogue, a proxy with representatives from the producer, industrial end user and gas marketer communities. After rate changes are discussed through Dialogue, they are provided to the Provincial Cabinet for approval. TransGas' latest rate change was effective March 1, 2013, with an average rate increase of 2.5 per cent (1.4 per cent for transportation and 6.4 per cent for storage).

Employee Communications

SaskEnergy regularly communicates with its workforce of more than 1,000 employees to ensure prompt and accurate delivery of corporate information.

A primary method of communication is the InfoFlash (a corporate memo containing relevant, business-related information) that is delivered via e-mail to all employees within the company. In addition, SaskEnergy also employs a corporate Intranet site (innergy). This communication medium allows employees to access information related to the Corporation, stay informed on upcoming events and initiatives and link to internal departmental sites for specific department-related information. To ensure the accuracy and quality of information provided, innergy offers a two-way communication medium for employees to submit feedback regarding information on the website.

SaskEnergy produces a bi-annual newsletter called Our Energy. Issues are delivered to all employees, as well as to superannuates, upon request. The Our Energy newsletter features articles related to corporate and employee initiatives that are taking place throughout the Province. The Corporation also produces corporate videos that serve as informative, educational tools to keep employees up-to-date on major projects that are taking place within the Corporation.

SaskEnergy also maintains an "Open Line to the President", a forum whereby employees are able to submit questions or comments for Executive response. Posted responses are available for all employees to view.

In addition to the mediums mentioned above, SaskEnergy supports the use of meetings, presentations and face-to-face communication to deliver important messages to employees, such as safety messages, business and strategic plan information and employee survey results.

GLOSSARY OF KEY SUCCESS MEASURES

SERVICE EXCELLENCE

Efficient Operations

Distribution	The Operation, Maintenance and Administration (OMA) Costs per Customer measure is a proxy for the relative efficiency of the Distribution Utility's operations and is calculated using OMA expenses (excludes transportation and storage charges) divided by the total number of distribution customers (approximately 373,400 customers at December 31, 2013). This measure is comparable to other Canadian gas utilities. The Competitive Residential Delivery Rates measure reports the ranking of SaskEnergy's natural gas distribution delivery service rates, relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders, or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison as are any Government rebates that are not directly approved by the utility's regulator.
TransGas	The OMA Costs per $Book Value of Assets Managed measure is a proxy for the relative efficiency of the Transmission Utility's operations and is calculated using OMA expenses (excludes third-party transportation charges) divided by the total value of the assets managed as part of the TransGas transmission system.

Safety/Vigilance

SaskEnergy Leaks per 1,000 kilometres of Mains	The term "leak" is defined as any unplanned release of product from the distribution system. The methodology for this measure was developed and standardized in 2013 by the Canadian Gas Association (CGA) for inter-jurisdictional comparison purposes and the SaskEnergy data on leaks per 1,000 km of Mains was filtered to align with CGA reporting methodology.
TransGas Pipeline Failures per 1,000 kilometres of Pipe	The term "failure" is defined as any unplanned release of product from the pipe body. This measure aligns with the CEPA definition and statistics, which the Corporation will use as a benchmark. The definition does not include small leaks on fittings and valve bodies.
Safety and Integrity	This measure reflects, as a percentage, the current year of integrity capital spending against the Corporation's assets as of 15 years ago. In general, older assets require greater attention from an integrity perspective, and thus it is appropriate to measure integrity spending against these older assets. SaskEnergy is currently in a significant growth period, which would have skewed the measure if current year assets had been used.

Customer Satisfaction

Customer Satisfaction Index – SaskEnergy	The SaskEnergy customer satisfaction measure expresses, in percentage terms, the proportion of customers surveyed who rated their overall satisfaction with SaskEnergy's service as a 5, 6, or 7 on a 7-point scale. Positive responses such as these indicate that customers view SaskEnergy service positively and provide a strong indication that the customer service tools, policies and staff are effectively meeting the needs of customers. The data for this measure is obtained from annual customer surveys conducted by independent market research firms.
Customer Satisfaction Index – TransGas	This number is derived from an annual online survey that is provided to all TransGas customers. Customer satisfaction is measured on a scale of 0 to 5, with 5 being the highest level of satisfaction. The survey contains 15 questions which, in turn, are subdivided to gain detailed feedback on various aspects of the service being evaluated. An average is taken on the responses to all questions and reported as a percentage.

ACHIEVING GROWTH

Business Growth Investment

Core Growth – SaskEnergy and TransGas Revenue Growth	This measures the level of growth in the Corporation's revenues from its core business operations. The SaskEnergy portion of this measure is calculated based on the number of new customers times the average delivery revenue per customer. The TransGas portion of this measure is the incremental revenue growth in the core business. The total incremental revenue is reported as a percentage of the core revenue in the previous year.

Diversified Non-Core Business

Net Revenue	This measure is calculated as the net revenue from Bayhurst Gas Limited (including BGSI and BESCO) as well as TransGas' Colleville Natural Gas Processing Plant. In aggregate, this metric represents the value being generated by the non-regulated business activities that leverage corporate expertise and private sector alliances.
Total Capital Investment Percentage of Third-Party Capital Investment	This measure tracks the capital invested in non-core business activities by SaskEnergy and its subsidiaries as well as third parties. The percentage that is third-party capital has also been identified.
Return on Equity	This measure is calculated as the return earned by the Corporation on the equity that has been invested in non-core business activities.

OUR TEAM

Physical Safety

Recordable Injury Frequency Rate	This measure is a composite of two separate metrics: • Lost Time Frequency Rate – measures the frequency in which lost time injuries have occurred. A standard duration is used to normalize the results so that company comparisons can be made despite differing workforce sizes. A lost time injury is an injury that resulted in lost work time following the day of the injury. • Medical Aid Frequency Rate – records the frequency of injuries that require medical attention. Results are normalized so that company comparisons can be made despite differing workforce sizes. A medical aid injury is an injury that requires medical attention, but no working time is lost beyond the day of the injury.

Employee Engagement

Employee Survey	SaskEnergy measures employee engagement using the Hay Survey, typically on a biannual basis. The Hay Group benchmarks survey results to their "Hay norm", as defined by a five-year rolling average of more than 500 North American organizations. The survey incorporates employees' opinions on a number of areas including satisfaction with pay and benefits, job opportunities, work/life balance, and training and developmental opportunities within SaskEnergy/TransGas.

Workplace Diversity

Workplace Diversity	The workplace diversity measures provide quantitative data for the employment of Aboriginal individuals, recognized by the Saskatchewan Human Rights Commission as being either underemployed or minimally employed within the Province. SaskEnergy also tracks the percentage of "Youth" in the workforce, which is defined as employees who are 30 years of age or less. The measures are calculated by comparing the number of employees from these groups relative to the number of total employees that comprise the workforce. SaskEnergy statistics related to employment equity are tracked and reported internally and are also reported to the Saskatchewan Human Rights Commission annually.

CREATING VALUE

Financial Strength

Debt/Equity Ratio	This measure is calculated by dividing total net debt by the sum of total net debt plus total shareholder's equity.
Consolidated Return on Equity	The consolidated rate of return on equity is measured by dividing the income before unrealized market value adjustments by the average shareholder's equity over the year. The average is determined as the simple average of the opening shareholder's equity and the closing shareholder's equity.
Income before Unrealized Market Value Adjustments	This measure removes unrealized market value adjustments from consolidated net income. Market value adjustments include fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to net realizable value.

The Environment

Internal Energy Efficiencies	This measure tracks the effects of the Corporation's energy efficiency improvements that reduce fuel usage (including vented and fugitive system losses). Energy consumption reductions will be tracked in terajoules, which is the equivalent of 1,000 gigajoules at an assumed price of $4/GJ.
Percentage of "Go Green" Regulatory Target Achieved	This initiative consists of GHG emission reductions governed by the targets that have been proposed by the Provincial government, as part of the "Go Green" Action Plan. The focus will be on fuel gas and energy efficiency improvements as well as the capture of vented gas and reduction of vented emissions throughout the Corporation's business activities. SaskEnergy and TransGas will strive to reduce their carbon dioxide and equivalent emissions from fuel combustion and reduce methane emissions from pipeline and compressor station venting to achieve the reduction target. This measure tracks the percentage of the "Go Green" reduction target achieved by the Corporation, using 20 per cent below 2005 emission levels (the base year) as prescribed in the proposed regulations.

Community Investment

Communities Impacted	The relative success of SaskEnergy's community investment activities is measured by the number of urban and rural communities we reach out to in a year. As Saskatchewan's natural gas provider, serving more than 90 per cent of the population, SaskEnergy strongly believes its sponsorships and community investments should be directly targeted to the places where its stakeholders live. This measure tracks the number of communities where the corporation has had a meaningful impact during the year through sponsorship funding or in-kind sponsorships.
Total Contracts – Percentage of Aboriginal Labour Content	This measure tracks the percentage of Aboriginal labour content in the organization's labour service contracts managed by the Purchasing Department.

SUPPLEMENTARY INFORMATION

GLOSSARY OF NATURAL GAS MEASUREMENTS

Joule (J) – a base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

Gigajoule (GJ) – a measure used to express the energy value of natural gas or of energy consumed. One GJ is equivalent to one billion J. A typical home in Saskatchewan uses about 105 GJ of natural gas per year.

Terajoule (TJ) – a unit of energy equivalent to 1,000 GJ.

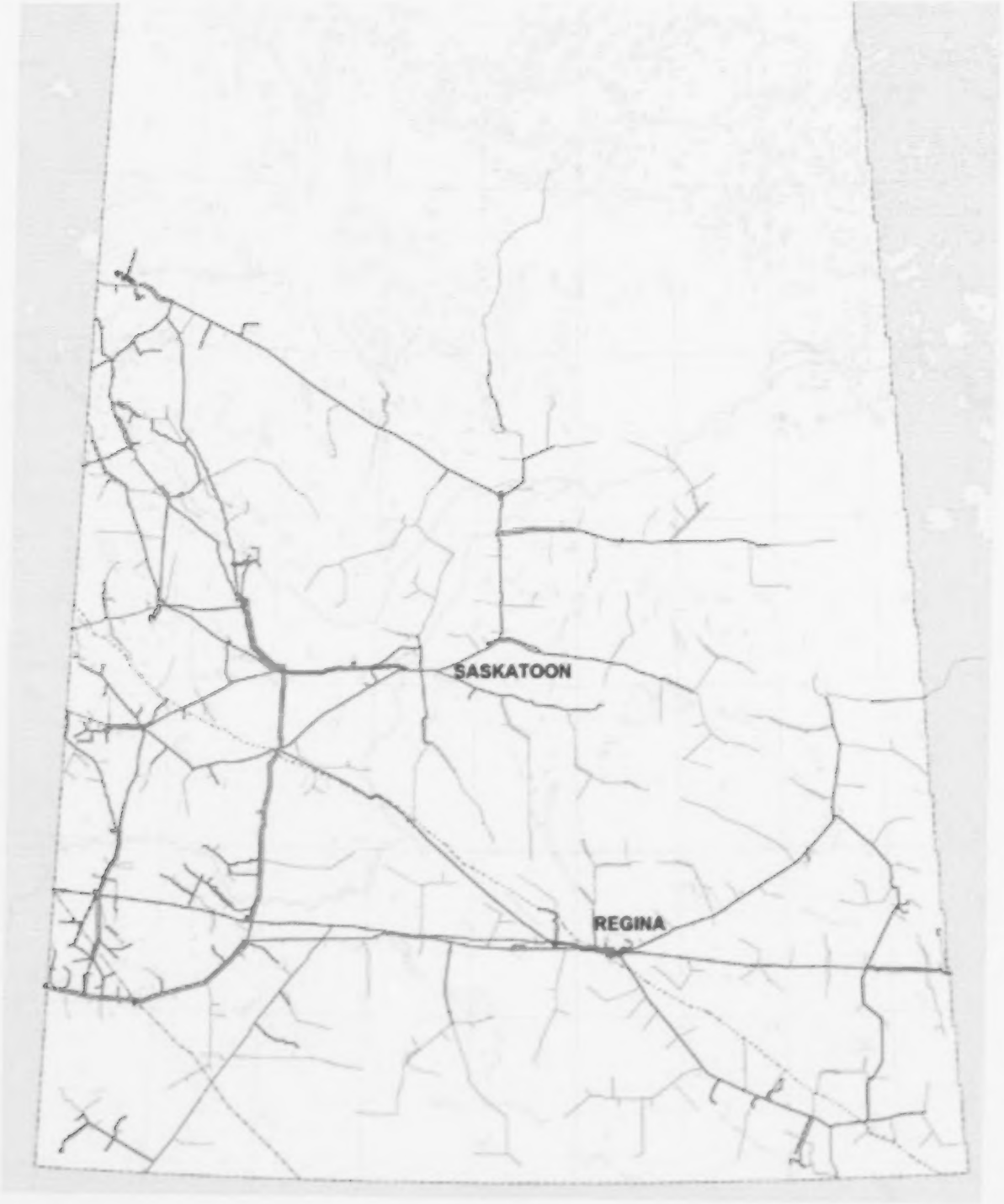
Petajoule (PJ) – a unit of energy equivalent to 1,000,000 GJ.

Cubic metre (m³) – a unit of volume measurement commonly used to express the amount of natural gas sold to customers. The typical home in Saskatchewan uses about 2,800 m3 of natural gas per year.

Natural Gas Volume Equivalents at Normal Atmospheric Pressure

- One GJ of natural gas would approximately fill an 11-foot by 11-foot by 8-foot room (approximately 1,000 cubic feet).
- One TJ of natural gas would fill a typical professional hockey arena (approximately 1,000,000 cubic feet).
- One PJ is enough natural gas to fill 17 sports stadiums the size of the Rogers Centre in Toronto (approximately 1,000,000,000 cubic feet).

SASKENERGY INCORPORATED NATURAL GAS TRANSMISSION PIPELINES



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